



India Power Summit 2006

Theme Paper on Power Play



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1 INTRODUCTION

Prior to 1996, the Power sector witnessed the Government acting as the economic Regulator as well as the operator, being the owner of nearly all Utilities in the country. The Government virtually determined all tariffs to be charged by the State-owned vertically integrated Utilities, though legally, Utilities were empowered to determine their own tariffs. One consequence of involvement of the political establishment in an important economic activity such as tariff determination was rampant increase in cross-subsidy, with the industrial and commercial category consumers bearing the brunt with higher tariffs, while agricultural and residential consumers were the chief beneficiaries.

In the period 1996 to 1998, Reforms Act was enacted in some States, while at the central level the Electricity Regulatory Commissions Act was enacted, which provided for the formation of State Electricity Regulatory Commissions (SERCs) for regulating the power sector at the State and Central level. As a consequence, the Government shed its role as a Regulator, though it continued to be the operator of the Utility.

The Regulators, with a mandate to develop cost reflective tariffs initiated movement of tariffs towards the cost of supply and payment of direct subsidy by the State Government to the Utilities, wherever State Governments desired lower tariffs for certain categories of consumers.

Due to precarious health of the State Governments, payment of large quantum of subsidies became difficult. India being an agrarian economy, agricultural tariffs, consequent cross-subsidies and 'ways and means' of reducing the subsidies feature predominantly in the political debate today.

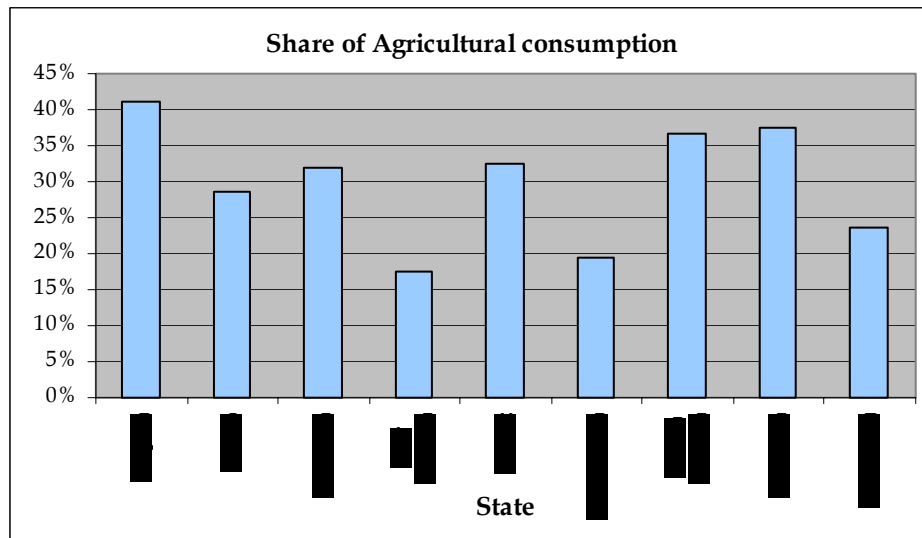
This Paper attempts to analyze the following issues which are at the heart of the debate:

- Agricultural Consumption – How Realistic?
- Tariffs and cross-subsidies
- Subsidies and burden on Government finances
- Government involvement in Electricity Business

2 AGRICULTURE CONSUMPTION - HOW REALISTIC?

Agricultural consumption comprises around 20% to 40% of the total consumption of the Utility in most States with Haryana registering as much as 41% as agricultural consumption while Uttar Pradesh records 18% of the total consumption as agricultural consumption. The contribution of agricultural consumption to total sales is given in the following graph:

Fig 1: Share of Agricultural Consumption

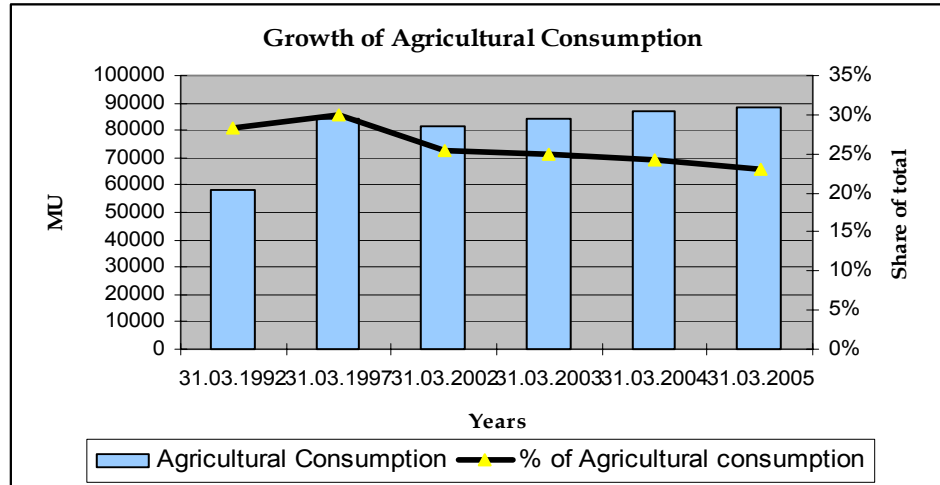


Source: ABPS Research

2.1 Increase in Agricultural Consumption

The growth of agricultural consumption in the country across the recent Plan periods shows an increase leading to fears regarding depletion of the water table due to unrestricted exploitation of ground water. However, the contribution of agriculture to total sales shows a downtrend, as shown in the graph below.

Fig 2: Growth in Agricultural Consumption



Source: ABPS Research

This reduction in percentage share is on account of the regulatory intervention, which reduced the quantum of consumption being reported under agriculture as it continues to be estimate.

2.2 Metering of Agricultural Consumption

Agriculture consumption in most States is largely un-metered and charged on a flat rate basis (Rs/HP/month), though a certain proportion of the consumers are metered. In this regard, it is interesting to note an important provision in Section 55 of the Electricity Act 2003, viz.,

“No licensee shall supply electricity, after the expiry of two years from the appointed date, except through installation of a correct meter in accordance with regulations to be made in this behalf by the Authority;

...

Provided further that the State Commission may, by notification extend the said period of two years for a class or classes of persons or for such area as may be specified in that notification.”



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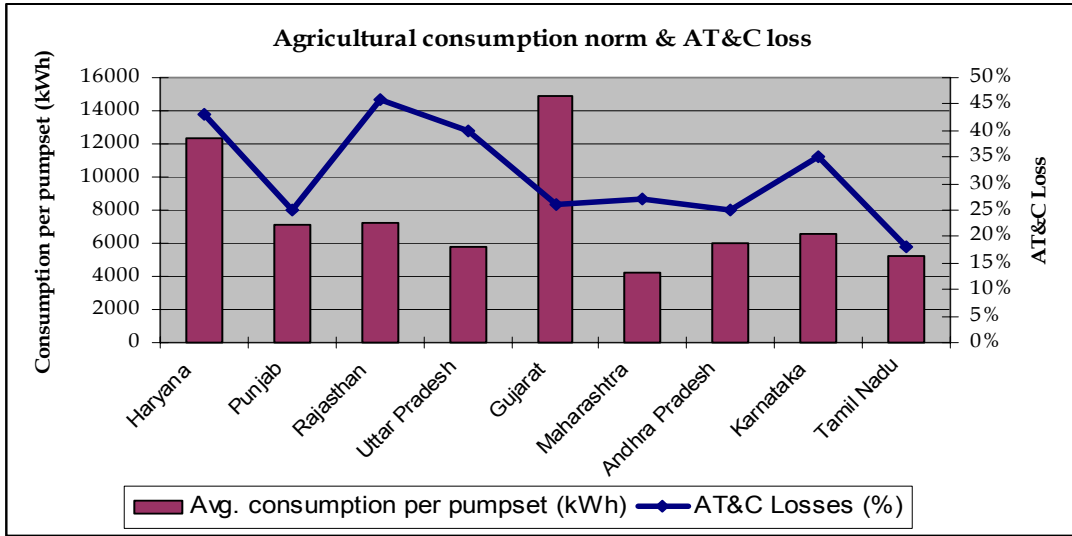
Despite the above provision, electricity supply to agricultural consumers continues to be undertaken on an un-metered basis in most States, though the SERC has not specifically granted any extension for applicability of the provision. The reasons for the non-compliance with this provision are the huge resistance to installation of meters at the field level, the cost of meters to be purchased, and the perceived impracticability of reading agricultural meters on a regular basis and billing on the same. Even in cases where meters are installed, the meter readings are not taken regularly, and the bills are usually issued on other than metered basis such as average/assessed basis.

At the same time, in the absence of metered consumption, it is not possible to assess the actual consumption. Though some States have undertaken Energy Audit to assess the agricultural consumption norms, unless these audits are undertaken on large number of feeders and pumpsets identified through scientific sampling techniques, the results would be biased and unlikely to be reliable.

2.3 Agricultural Consumption and T&D Losses

It has become very convenient for Utilities to hide their actual losses under the garb of agricultural consumption. The agricultural consumption norms being used in the major agrarian States sheds light on the above aspect. Higher the reported agricultural consumption norm, lower the AT&C losses, and vice-versa.

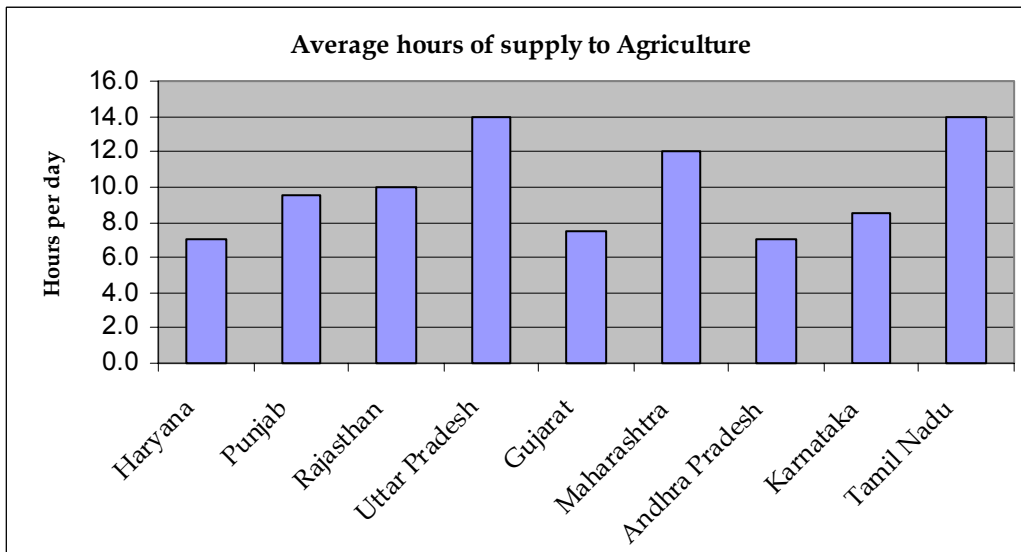
Fig 3: Agricultural consumption norms & AT&C Loss



Source: ABPS Research

In this context, it is interesting to analyse the average hours of supply to agriculture reported by different States, which is depicted in the Graph below:

Fig. 4: Average hours of supply to Agricultural consumers



Source: ABPS Research



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The above Graph indicates that agricultural consumers in Uttar Pradesh are being supplied electricity for around 14 hours daily throughout the year, while agricultural consumers in Gujarat and Andhra Pradesh are given supply for less than 7 hours daily. The number of hours of supply being indicated is prima-facie inconsistent, as it is difficult to believe that any agricultural consumer will be able to consume electricity for so many hours daily for 365 days of the year. It appears that distribution inefficiencies are getting hidden under the garb of agricultural consumption, which would be lower than the reported levels.

Given that the consumption has to be metered, the concern faced by the Regulators and the Utilities, is the feasibility and practicability of installing meters for all the agricultural consumers, the time frame for the same, and the practicability of issuing bills on metered basis for all these consumers. Considering the huge volume of agricultural consumers, alternative approaches to the problem of individual metering, such as DTC level metering, feeder level metering, etc., may have to be considered.

2.4 Key Issues

In view of the foregoing, the following issues arise:

1. What is a reasonable estimate of agricultural consumption? Is agricultural consumption really at the level projected by the Utilities?
2. What actions could be taken to measure agricultural consumption? Should a phase-wise approach be followed - first, DTC level metering, followed by individual metering?
3. Given that agricultural tariffs are too low, what is the economic cost of metering and billing on the basis of metered consumption for all agricultural consumers?
4. Should Governments/political establishment support metering of all agricultural consumers?

3 TARIFFS & CROSS-SUBSIDIES

The tariff for un-metered agricultural consumers is charged on flat rate basis in Rs/HP/month of connected or sanctioned load and on a per kWh basis for the metered consumers. The agricultural tariff in the entire country is significantly lower than the average cost of supply, due to historical reasons, though efforts made by SERCs to reduce the cross-subsidies have resulted in some increase in agricultural tariffs.

Fig. 5: Prevailing Agricultural Tariffs

Sl.	State	Agriculture
1	Andhra Pradesh	24
2	Gujarat	58
3	Haryana	18
4	Karnataka	105
5	Maharashtra	180
6	Punjab	0
7	Rajasthan	76
8	Tamil Nadu	0
9	Uttar Pradesh	45

Source: ABPS Research

3.1 Legal and Regulatory Framework

In the context of cross-subsidy, Section 61 (g) of the Electricity Act, 2003 (EA 2003) enacted in June 2003 states that the Appropriate Commission shall be guided by the following, while determining tariffs,

“that the tariff progressively reflects the cost of supply of electricity and also, reduces and eliminates cross-subsidies within the period to be specified by the Appropriate Commission”



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Clause 8.3 of the National Tariff Policy (NTP) states,

“1. In accordance with the National Electricity Policy, consumers below poverty line who consume below a specified level, say 30 units per month, may receive a special support through cross subsidy. Tariffs for such designated group of consumers will be at least 50% of the average cost of supply. This provision will be re-examined after five years.

2. For achieving the objective that the tariff progressively reflects the cost of supply of electricity, the SERC would notify roadmap within six months with a target that latest by the end of year 2010-2011 tariffs are within ± 20 % of the average cost of supply. The road map would also have intermediate milestones, based on the approach of a gradual reduction in cross subsidy.”

While the EA 2003 clearly stipulates that the cross-subsidies need to be progressively reduced and ‘eliminated’ over a specified period, the NTP has attempted to give greater clarity on this issue by stipulating that the tariffs should reach ± 20 % of the average cost of supply by the end of year 2010-11. The issue here is whether the current level of cross-subsidy should be considered as an absolute number and then reduced over a period of time, or whether the cross-subsidy should be considered as a percentage of the average cost of supply. The NTP is not explicit on this aspect, while in the case of cross-subsidy surcharge, the NTP is clear that the surcharge should reduce in absolute terms. Most SERCs are yet to specify the trajectory of reduction of cross-subsidies in accordance with the provisions of the NTP. The movement of tariffs towards the cost of supply will bring an upward pressure on tariffs for the agricultural and residential consumers, which are politically sensitive and vociferous categories. Hence, there has to be a studied and sensitive approach to the issue such that the intention of the Act and the Policy are achieved, while at the same time the concerns of the consumers are kept in mind to mitigate against a tariff shock.



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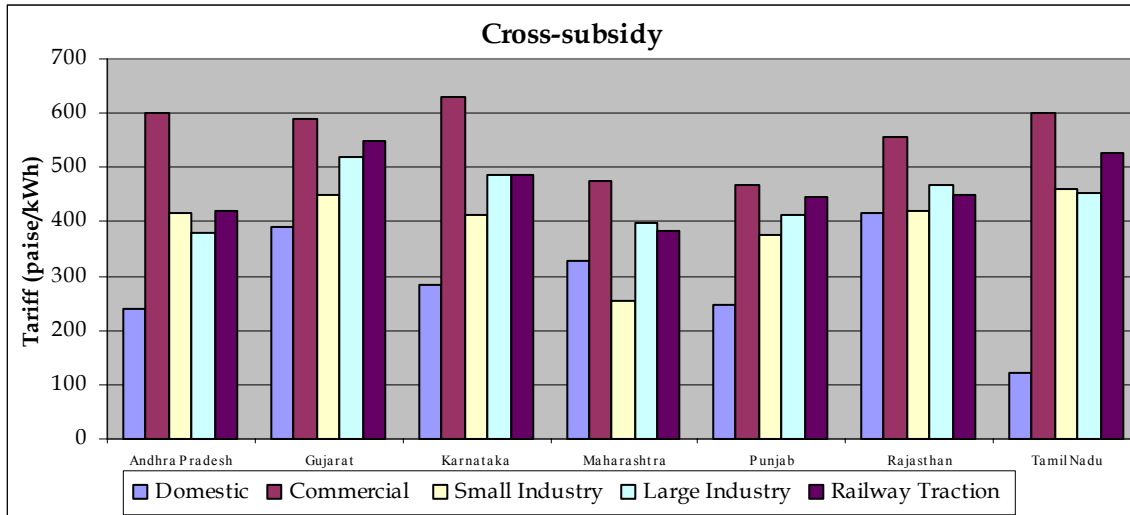
The NEP and NTP provide for the creation of a 'life-line' category for consumers below the poverty line and consuming less than 30 units per month. The issue here is the need to create such a category, the basis for classification under this category, and the practical difficulties in administering the scheme. Further, considering that the prevailing tariffs for this level of consumption are usually significantly lower than 50% of the average cost of supply, it may result in a tariff shock for this consumer category, which would be exactly the reverse of the stated objective of the NTP.

3.2 Cross-subsidy reduction

Though the SERCs have attempted to reduce the cross-subsidies over a period of time, the task has been made difficult due to the high level of cross-subsidies prevalent in the sector, and the need to ensure that no consumer category had to face a tariff shock due to steep increase in tariffs. While some SERCs were able to reduce cross-subsidies in real terms, others resorted to the method of indicating cross-subsidies as well as tariff increase in percentage terms.

It is to be noted that lower percentage increase in tariff for subsidising categories vis-à-vis higher tariff increase for subsidised categories does not really result in cross-subsidy reduction, as percentage increase depends on the base tariff. If the industrial tariff is say Rs. 4 per kWh and the agricultural tariff is say Rs. 0.20 per kWh, then even a 50% increase in agricultural tariff results in a tariff increase of only Rs. 0.10 per kWh, whereas even a 10% increase in industrial tariff results in a tariff increase of Rs. 0.40 per kWh. However, there has been an overall reduction in cross-subsidy over a period of time.

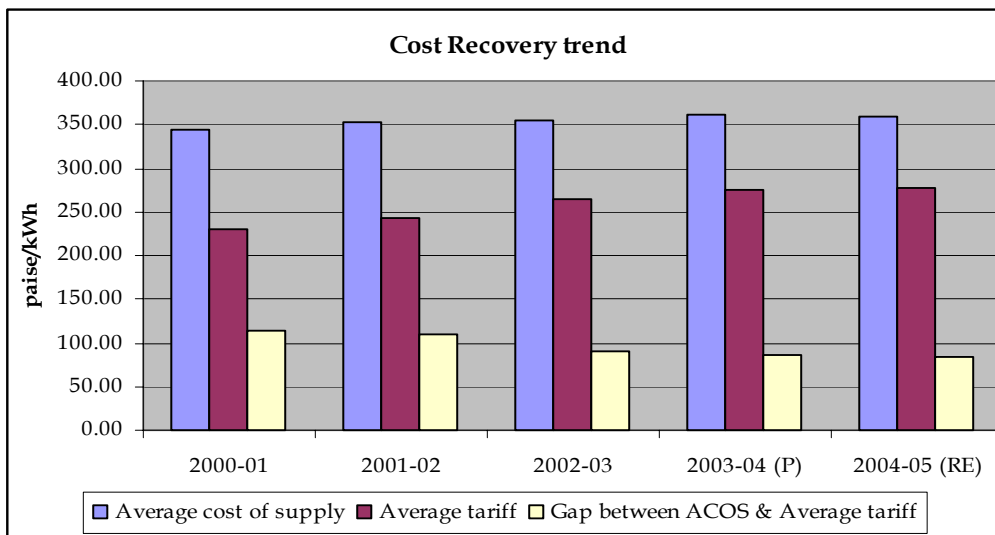
Fig. 6: Category-wise tariffs across States



Source: ABPS Research

As a consequence of the measures initiated to improve the viability of the sector, the gap between the average cost of supply and the average tariff has been reduced over the years, as seen in the Graph below:

Fig 7: Cost Recovery Trend



Source: ABPS Research



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Though the gap is reducing over the years, it is still too large (around 23% of average cost of supply and 30% of average tariff) for comfort, and steps need to be taken to reduce the gap in a very short time, in order to ensure the viability of the distribution segment.

Most of the agricultural consumers are billed on flat rate basis, i.e., there is no linkage to the actual consumption. As a result, it does not discourage indiscriminate use of scarce resources, resulting in high water and power consumption, which in turn results in depletion of ground water levels. This is a vicious circle, as it leads to increased agricultural consumption, as water has to be drawn from greater depths. In this context, the World Bank, in its Report on 'Power Supply to Agriculture' in June 2001 stated,

"From the utility's point of view, providing agricultural power costs more than supplying industry because the fixed costs per hook-up of serving connections spread across the countryside and the line losses are much higher. The political pressures that have resulted, over time, in increasing subsidization of electricity tariffs to agriculture have made many of the electricity utilities unviable and resulted in low capital investments without which reliability suffers. Distribution losses due to widespread pilferage further exacerbated the situation, the resultant inadequate and deteriorating quality of supply of electricity to farmers, the frequent power outages and voltage fluctuations. As a consequence, consumer dissatisfaction increased and, with it, unwillingness to pay even highly subsidized charges. As users often postpone paying electricity bills and resist tariff revisions, cost recovery diminishes for the utility, further perpetuating the circle."

With the increasing demand-supply gap in most States, the Utilities are increasingly resorting to load shedding for the agriculture category, due to the non-remunerative nature of supply to this category. Some of the steps that can be taken to ensure that the agricultural tariffs are reflective of the costs incurred, and appropriate tariff signals are given to the consumers, are:

- Energy audits based on scientific sampling methods, to assess electricity consumption for agriculture across regions, crops, ground water level, etc.



- Higher tariff for higher capacity pumpsets
- Tariffs linked to acreage under cultivation
- Tariffs linked to cost-to-serve, rather than average cost of supply or voltage level cost of supply.

Another consumer category which typically enjoys the benefits of cross-subsidy in most States is the residential category. Historically, tariffs for residential category have been significantly lower than the cost of supply, and hence, the ERCs are finding it difficult to reduce the cross-subsidy appreciably, as any increase in tariff is met with a huge resistance. The concern expressed by residential category consumers is that they have to absorb the tariff increase directly and are not in a position to pass on the increase to others, unlike industrial and commercial category.

Given this background, it may not be feasible to eliminate cross-subsidies completely, though one would hope that the cross-subsidies are reduced over time, while ensuring that the trajectory of reduction is well-known and is debated before being finalised.

3.3 Efficiencies of Agricultural Pumpsets

There is also an urgent need to improve the efficiency of the pumpsets. It is no secret that the agricultural pumping systems are very inefficient for various reasons such as improper design vis-à-vis the pumping requirement, lack of capacitors, and non-usage of BIS certified pumpsets. There is an urgent need to replace these inefficient pumpsets with more efficient ones. Although the law requires usage of BIS certified pumpsets, it is not being followed in practice. Further, farmers get the winding repaired through local unskilled vendors, which causes efficiencies to drop further. It is necessary that farmers are provided with necessary finance to replace the pumpset, which could be repaid out of the savings arising from reduction in consumption, especially if the billing is done only on metered basis.

In this context, the World Bank, in its Report on 'Power Supply to Agriculture' in June 2001 states,



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“More efficient pumpsets could reduce electricity consumption by 30-45% (Table 4.4) and therefore limit the impact that tariff adjustments would have on the cost of farming operations and farmers’ incomes. Although such pumpsets costs about 30% more than the standard variety, the burden is one farmers and utilities are likely to share, and, it has been estimated that in Haryana, the farmer’s investment should pay for itself in lower electricity costs and less frequent burnouts....”

Clause 8.3 of the NTP states,

“3. While fixing tariff for agricultural use, the imperatives of the need of using ground water resources in a sustainable manner would also need to be kept in mind in addition to the average cost of supply. Tariff for agricultural use may be set at different levels for different parts of a state depending of the condition of the ground water table to prevent excessive depletion of ground water. Section 62 (3) of the Act provides that geographical position of any area could be one of the criteria for tariff differentiation. A higher level of subsidy could be considered to support poorer farmers of the region where adverse ground water table condition requires larger quantity of electricity for irrigation purposes subject to suitable restrictions to ensure maintenance of ground water levels and sustainable ground water usage.”

The above provision in the NTP empowers the ERCs to determine differential agricultural tariffs across the State based on the prevailing water levels in the respective region, to prevent excessive exploitation of ground water due to indiscriminate pumping of water.

Quite frequently, comparison is made between the telecommunication sector and the power sector, with suggestions that the tariff should actually reduce with increase in consumption levels, and the provision of certain quantum of free units in the month. However, this comparison is inappropriate, given the intrinsic difference in the two sectors, with telecommunication being primarily an infrastructure driven service with greater returns from increased capacity utilisation levels, unlike the power sector, where the marginal cost of electricity is the relevant parameter, more so in the current context of supply shortages and load shedding being undertaken by several Utilities. At the same



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time, the aspect of encouraging increase in the per-capita consumption, which will propel economic growth, also needs to be considered.

3.4 Key Issues

1. Is elimination of cross-subsidy for the agricultural and residential categories desirable? Is it feasible to eliminate cross-subsidy?
2. Should cross-subsidy be reduced in absolute terms or a percentage of the prevailing cost of supply?
3. How much time would be required to eliminate cross-subsidies, given the wide disparity in tariffs and the difference in tariffs and cost of supply? To what extent is tariff rationalisation feasible?
4. How can the efficiency of agricultural consumption be improved? What tariff signals can be given for incentivising efficient agricultural consumption?



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4 SUBSIDIES AND BURDEN ON GOVERNMENT FINANCES

One of the implications of reduction in cross-subsidy is the corresponding increase in subsidy to be provided by the State Governments, given the general view in the political circles that prevailing tariffs for agriculture are themselves too high to be borne by the agricultural community. Apart from political considerations, the issue of mismatch between agricultural product prices and the cost of production, and the poor agricultural financing infrastructure also impact the need for providing subsidy.

Similarly Section 65 of the EA 2003 states,

“If the State Government requires the grant of any subsidy to any consumer or class of consumers in the tariff determined by the State Commission under section 62, the State Government shall, notwithstanding any direction which may be given under section 108, pay, in advance in the manner as may be specified by the State Commission, the amount to compensate the person affected by the grant of subsidy in the manner the State Commission may direct, as a condition for the licencee or any other person concerned to implement the subsidy provided for by the State Government.”

Clause 5.5.4 of the National Electricity Policy (NEP) notified in February 2005, states,

“The State Governments may give advance subsidy to the extent they consider appropriate in terms of section 65 of the Act in which case necessary budget provision would be required to be made in advance so that the utility does not suffer financial problems that may affect its operations. Efforts would be made to ensure that the subsidies reach the targeted beneficiaries in the most transparent and efficient way.”

Clause 8.2.1 (3) of the National Tariff Policy (NTP) notified in January 2006 states,

“Section 65 of the Act provides ...To ensure implementation of the provision of the law, the State Commission should determine the tariff initially, without considering the subsidy commitment by the State Government and subsidised tariff shall be arrived at thereafter



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considering the subsidy by the State Government for the respective categories of consumers."

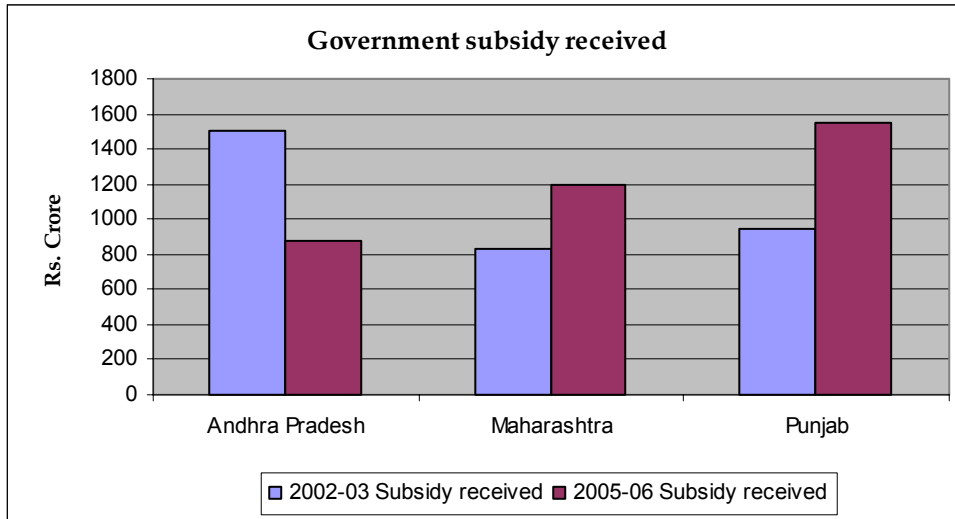
Clause 8.3 of the NTP states,

"The State Governments can give subsidy to the extent they consider appropriate as per the provisions of section 65 of the Act. Direct subsidy is a better way to support the poorer categories of consumers than the mechanism of cross-subsidizing the tariff across the board. Subsidies should be targeted effectively and in transparent manner. As a substitute of cross-subsidies, the State Government has the option of raising resources through mechanism of electricity duty and giving direct subsidies to only needy consumers. This is a better way of targetting subsidies effectively."

4.1 Subsidies paid by the Government

While free supply of electricity is being given to the agricultural consumers in States like Tamil Nadu and Punjab, other States like Maharashtra and Andhra Pradesh provide electricity at subsidised rates to the agricultural consumers. The annual subsidy burden for each State Government is in the range of Rs. 800 crore to Rs. 1500 crore, depending on the quantum of agricultural consumption and the tariff determined by the SERC vis-à-vis the tariff considered reasonable by the State Government. Considering the stretched finances of most State Governments, the provision of this subsidy affects investments and expenditure in other areas. The quantum of direct subsidies given by selected State Governments in FY 2002-03 and FY 2005-06 is given in the following Graph.

Fig. 8: Government Subsidy



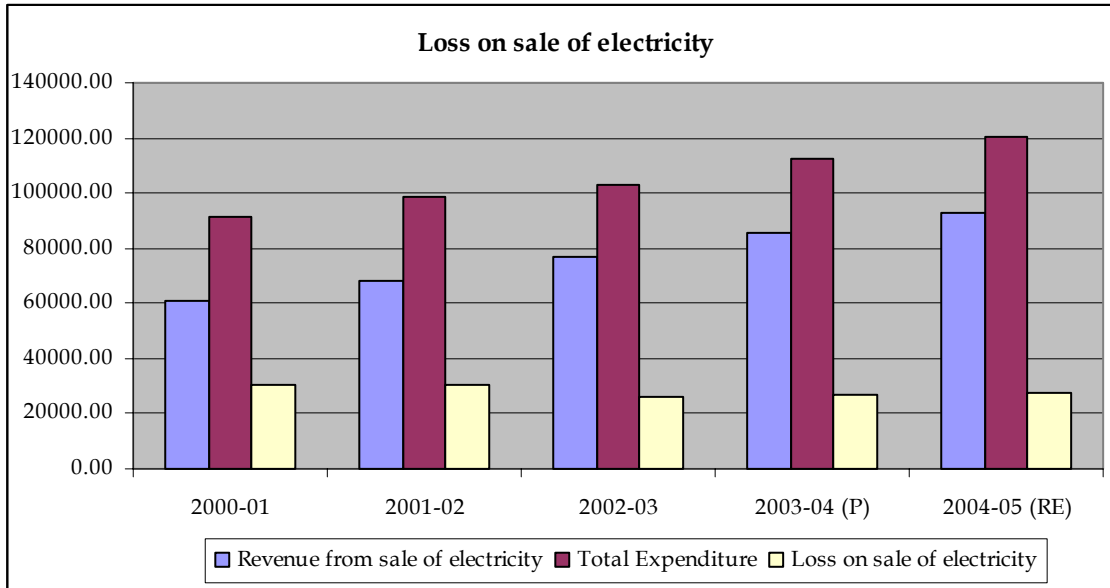
Source: ABPS Research

There is no clear pattern of increase or decrease in Government subsidy, which have been largely governed by political developments like impending elections, poll promises, etc. However, it is clear that the quantum of subsidy being given by the State Government is quite large, which is expected to increase further, with overall increase in costs and upward pressure on tariffs due to reduction in cross-subsidies over time.

4.2 Financial burden on the Government

In addition to the subsidies, the financial burden on State Governments includes the cost of losses incurred by the Utilities, which has to be made good by the Government as owner of the utility. The annual loss of the Utilities in the country is shown in the Graph below:

Fig. 9: Annual losses of State Utilities from electricity business



Source: ABPS Research

Covering a gap of around Rs. 28000 crore every year is simply unsustainable, more so, as the Utility's Budget comprises a very significant portion of the State Government Budget, in most States. Given the poor financial health of most State Governments, it appears difficult for the Governments to be able to fund the increasing quantum of subsidy, in addition to the losses incurred by the State Utilities.

The contribution of the power sector to the State Budget, towards developmental expenditure and loans and advances, has been shown in the Table below:



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Table 1: Contribution of power sector to State Budget

Sl.	Particulars	2003-04 (Accounts)	2004-05 (Revised Estimates)	2005-06 (Budget Estimates)
A	Development Expenditure			
	Development Expenditure on			
1	Energy	40308	33561	24681
2	Total Development Expenditure	255015	296817	312805
	Contribution of Energy to			
3	Development Expenditure	16%	11%	8%
B	Loans & Advances by State Government			
4	Power Projects	18233	11333	6519
5	Total Loans & Advances	25085	19355	12867
6	Share of power projects	73%	59%	51%

Source: ABPS Research

Due to the funds constraint, the share of the power sector has been reducing over the years though the share continues to be high. As a consequence, in addition to ownership control, the State Governments exert significant control over utilities due to their dependence on State finances. For various political reasons, State Governments are loath to allow the State-owned Utilities to file for tariff revision which creates a vicious circle whereby State owned utilities become more dependent on State finances. National Tariff Policy taking into account impact of this vicious circle on the viability of the Sector has specifically made following provision in Paragraph 8.1(7):

"7) Appropriate Commissions should initiate tariff determination and regulatory scrutiny on a suo moto basis in case the licensee does not initiate filings in time. It is desirable that requisite tariff changes come into effect from the date of commencement of each financial year and any gap on account of delay in filing should be on account of licensee."

However, till date, no SERC has undertaken tariff determination exercise on suo-moto basis.

Further, it is also necessary to look at the options available for Governments to raise additional sources for funding subsidies. As taxation is the major source of revenue for



the Government, it is likely that the Governments will resort to levy of additional taxes and duties, in order to generate funds for financing the subsidy burden. The issue here is whether the additional tax revenues should be collected through the same sector or should part of the revenue come from taxes levied on other sectors. Another option for funding would be through issue of bonds to the general public, but this would skew the Government's financials due to asset-liability mismatch, as it would be resorting to obtaining long-term funds for meeting short-term requirements. Moreover, the subsidy requirement would have to be met every year, and additional bonds cannot be issued every year.

4.3 Subsidy Payment Mechanisms

Subsidy payment by the Government for compensating the loss of revenue is a more transparent mechanism of providing subsidy as compared to cross-subsidy by other consumer categories. This will also result in a structural adjustment as the burden of subsidy is being shifted from the ratepayer to taxpayer.

The EA 2003 requires payment of subsidy in advance, as a pre-condition for the Utility to implement the Government's directives of reducing the tariff for any consumer category. The provision allows Utilities to charge a higher tariff if subsidy is not received in time.

In the existing mechanism of subsidy payment, the Utility raises a bill on the State Government indicating the revenue lost due to provision of subsidy, which is paid by the State Government to the Utility. Despite the specific provision for payment of subsidy in advance, the subsidy payments are not being made on time in most States, with the Government resorting to the method of adjusting the subsidy payable with the amounts due to the Government, such as Electricity Duty, loan repayments, etc. Even after these adjustments, there is usually a shortfall, which is delayed, causing strain on the cashflows of the Utility.

A further refinement to the subsidy payment mechanism can be introduced, by ensuring direct payment of the subsidy to the agricultural consumer, as reimbursement of the



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amount of electricity bill paid, either fully or partly. In the proposed approach, the payment culture could be improved, as the subsidy can be availed only as a reimbursement. This would ensure that the agriculture consumer gets into the habit of actually paying the Utility's bills, which would remain within the ethos, once the subsidy is discontinued.

On the other hand, direct payment of subsidy to the agricultural consumer would give an opportunity to middle-men to make their presence felt, given the low levels of awareness amongst consumers. This may cause systemic losses, and the agriculturist may not get the committed amount, which could lead to default in payment of bills by the agriculturist in the system.

4.4 Key Issues

1. Is transfer of burden from rate payers to tax payers desirable? Will payment of direct subsidy to consumer result in transparency in the sector?
2. Whether State Governments are in a position to fulfil the existing deficit, due to the revenue gap, in addition to the subsidy requirement?
3. Whether the State Governments will be able to provide subsidies at higher tariff levels, which will happen in future, due to pressures of cross-subsidy reduction?
4. What are the avenues available to the Government to generate the necessary funds, if they are to fund the sector gap as well as provide subsidies to needy categories?



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5 GOVERNMENT INVOLVEMENT IN ELECTRICITY BUSINESS

Though the electricity Utilities in most of the States are owned by the respective State Governments, some cities in select States like Mumbai, Surat, Ahmedabad, Kolkata, etc., have been supplied electricity by private players who were in existence, before the SEBs were created. For instance, Reliance Energy Limited (erstwhile BSES Ltd.) and The Tata Power Company, Torrent Power SEC Ltd. (erstwhile Surat Electricity Company), Torrent Power AEC Ltd. (erstwhile Ahmedabad Electricity Company), CESC Ltd., Dishergarh Power, and Durgapur Power have held distribution licenses or sanctions since the early 1900s.

These private sector licensees' consumer base is restricted to the cities, having natural advantages like small area, concentrated load, better paying capacity, higher commercial and industrial load, and underground cabling, which has resulted in a significantly better quality of supply in these areas. Though the tariffs in these cities were historically higher than the tariffs prevalent in the neighbouring areas served by the SEBs, in most cases, the consumers did not mind paying the higher tariffs as a price for the superior quality of power supply in these areas, with interruptions almost unheard of.

There are only 2 States, where State owned distribution entities have been privatised, viz., Orissa and Delhi. Delhi's distribution business is also a city model, similar to that in Mumbai. Orissa is the only State where the privatisation has happened for distribution entities on a State-wide basis. However, success of the distribution privatisation in Orissa is suspect given questions raised about performance of the private sector utility. Moreover, the level of electrification has not improved, as over 70% of the State is still un-electrified.

The issue here is whether the electricity sector can improve beyond a certain level, as long as it remains in the public domain, or is privatisation the answer to the sector's problems. Another issue would be the willingness of private sector players to supply electricity to rural areas. If the private players target only the urban areas, it may result in further distortion with the erstwhile SEB's saddled with rural distribution without any comfort of



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cross-subsidy through urban and industrial consumers. The subsidy support required from the Government would also increase on this account.

Another approach to reduce the Government role in the electricity business would be to involve more franchisees, as provided for under the EA 2003. Village panchayats, co-operative societies, and local organisations could be roped in to take over the franchise for specific areas/feeders, with a revenue sharing arrangement with the Utility, linked to certain physical performance parameters and financial parameters. However, this is easier said than done, and this concept is yet to take off in the country.

5.1 Key Issues

- a) Should Government continue as an operator in the electricity business, or should it restrict itself to a policy making role?
- b) Is power sector in the public sector sustainable? How can Government reduce its involvement in the power sector?
- c) Is privatisation of the distribution business the answer to the problems faced by the sector? Does Government really need to entice private participation in the sector?
- d) What models could be used to enhance private sector participation in the sector?