Reforming the Power Sector

What is the issue?

- With GST regime in place, Indian economic integration is emerging.
- 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.

What are the challenges in the power sector?

- India has made commendable strides in increasing generation and transmission capacity over the years.
- Power is now available to many more poor Indians, the quality of supply has improved, and Power for All seems within reach.
- Despite easing many short-run structural constraints by these developments, the power still encounters many challenges.
- There is the stranded assets and NPA problem in the financial side.
- Moreover, the thermal power faces considerable threat and competition from the emerging renewables.
- Uncertainty due to withdrawal from and renegotiation on long-term contracts are witnessed increasingly.
- On the distribution side, the perennial problem of the inefficiency of distribution companies (discoms) exists.
- Subsidisation and cross-subsidisation are widely prevalent in the Indian power sector.
This undermines the competitiveness of Indian manufacturing as normally the industries face elevated electricity prices and bears the brunt of such policies.

On market structure, restrictions continue on choice for consumers, industrial users, the discoms and the power exchanges.

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.

What is the role of centre and states?

State - In practice, many of the issues in electricity-tariff-setting, regulation, and implementation are regulated by the states.

Naturally, states should take on the responsibility of addressing the challenges discussed above.

However, states practise trade protectionism that shields their discoms and their policies from the challenge of competition.

This is given the fact that several state distribution companies are keen to protect their monopolistic position.

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.

It is also employed as a means of sustaining the subsidy and cross-subsidy policies and in turn ensuring monopoly.

Centre - It is the central government that is paying for the problems in PSBs due to heavy borrowing from the power generators.

The financial viability of discoms also affects the Centre directly and indirectly, as discoms too had borrowed from PSBs.

Discoms' debts were taken over by state governments, and hereto state government bonds are seen to be implicitly guaranteed by the Centre.
Clearly, the Centre has financial implications on all these commitments and certainly has a critical role in ensuring the financial viability of the sector. 

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. 

The fragmentation into many markets in the power sector is indeed creating many challenges. 


What lies before the centre?

A single market for power will boost competition and encourage state discoms to be more efficient. 

The centre could bring state electricity regulators together to build capacity and opportunities for mutual learning. 

This will also share the responsibilities of tackling the challenges by integrated policy making. 

Centre can incentivise competitive reform by highlighting and rewarding best practices. 

It can consider fostering policies in the collective interest; say by bringing electricity into the scope of the GST. 

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. 

Source: Business Standard