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India powers new policy

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In further proof of its unrelenting reforms momentum, the government last week cleared the National Electricity Policy. Taking forward the reforms initiated through the Electricity Act, 2003, the policy is expected to serve as a guideline for both central and state power regulatory establishments. It aims at nearly doubling the per capita power consumption by 2012, stresses on competition for consumer benefit and deals with financing issues, including private participation.

The stated objectives of the policy are:

- Electricity for all households within the next five years
- Fully meeting power demand by 2012
- Supply of reliable and quality power at specified standards in an efficient manner and at reasonable rates
- Increase of per capita availability of electricity to over 100 units by 2012
- Financial turnaround and commercial viability of the electricity sector
- Protection of consumers' interest

The National Electricity Policy lays down the approach for developing rural electrification distribution backbone and village electrification to achieve the target of completing household electrification in the next five years. Around 10 million households and 100,000 villages with no proper electricity connections will be provided electricity in the next five years. The policy will also provide at least 1 unit per day at subsidized rates to below poverty line families. The policy includes guidelines on the recovery of cost of services and focuses on the targeting of subsidies. It is expected to help bring more private players and investment in the power sector.

It also seeks full development of India's hydro potential. Exploitation of non-conventional energy sources such as small hydro, solar, biomass and wind for additional power generation capacity is also envisaged. Development of a national grid is an important feature of the policy, which recognizes the need to ensure recovery of cost of service from consumers to make the power sector sustainable. It also recognizes that a minimum level of support is required to make electricity affordable for consumers of the poorest segments. Those below the poverty line who consume below a specified level may receive special support in terms of tariff. Efforts would be made to ensure that the subsidies reach the targeted beneficiaries in the most transparent and efficient way. Special emphasis has been put on the time-bound reduction of transmission and distribution losses and promotion of competition aimed at consumer benefit.

The new power policy estimates that to meet the objective of rapid economic growth and "power for all", including household electrification, an investment of about Rs 9 trillion (US$200 billion) would be required to finance generation, transmission, distribution and rural electrification projects up to 2012. Public sector investment, both at the central and state levels, will have to be stepped up and a sizeable part of the investments will need to be brought in from the private sector.

Public service obligations such as increasing access to electricity to rural households and small and marginal farmers will have higher priority than public finances. To attract adequate private investment in the sector, the return on investment will need to be put at par with that in other sectors and an appropriate balance will be maintained between the interest of the consumers and the needs for investment, as per the new policy.

Open access in transmission will promote competition and in turn lead to the availability of cheaper power. The policy emphasizes that regulatory commissions need to provide a facilitative framework for non-discriminatory open access at the earliest, including technological upgrades of the State Load Dispatch Centers by June 2006, to ensure data acquisition capability on a real time basis.

Open access to distribution networks, initially for bulk consumers, is expected to increase the availability of a cheaper and reliable power supply. State regulatory commissions have been mandated to notify regulations by June 2005 for laying down the road map for introducing open access in distribution. It has also been envisaged that the amount of the cross-subsidy surcharge and the additional surcharge to be levied from consumers who are permitted open access should not become so onerous that it eliminates competition.

The power policy stipulates that regulatory commissions should determine indices of the quality of power supply. Parameters should include frequency and duration of interruption, voltage parameters, transformer failure rates, waiting time for restoration of supply, percentage of defective meters and a waiting list of new connections. The commissions will specify expected standards of performance. The policy emphasizes that the central and state governments as well as the commissions will facilitate capacity building of consumer groups and their effective representation. This will eventually enhance the efficacy of the regulatory process.

Emphasis will be on higher efficiency levels of generating plants through renovation and modernization, international-level redundancy and margins in transmission capacity, adequate transitional financial support for reforming power utilities, encouragement for private sector participation in distribution, putting in place an independent third party meter testing arrangement, adoption of an information technology system for ensuring correct billing, speedy implementation of stringent measures against theft of electricity, emphasis on the augmentation of India's research and development base, energy conservation measures, an appropriate tariff structure for managing the peak load, development of training infrastructure in the regulation, trading and power market, boosting renewable and non-conventional energy sources, and an early appointment of an ombudsman for the redressal of consumers' grievances.

The industry has welcomed the new policy, particularly the provisions of open access to transmission and private sector participation in the rural sector. Open access has always been a major issue as there are many private captive power plants with surplus power that is barred from transmission. Also, with 72% of households without electricity in India, clearly there is enough room for private investors in rural electrification. The new policy is expected to result in the entry of more private players. The policy also envisages an additional generation capacity of 107,000 megawatts over the next few years, which throws up exciting opportunities for power equipment and generation companies.

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