Towards Empowering Access to Power in India

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Current situation in India’s power sector

- In deep crisis – most utilities incurring losses over three decades
- Financial losses were 50% of the capital outlays (2009 – 2014)
- Supply inadequate & Line losses high (AT&C)
- Subsidies huge, ill targeted and create large negative externalities
- Per capita consumption low (India’s one-fourth of world average; rural India’s one-fourth of urban)
- Rural energy access – subsidised and also heavily compromised
- Climate concerns make it imperative that the current 70% dependence on fossil fuels come down
- Faced with the twin challenges of improving access and greening the energy mix
Institutional background

- Indian Constitution - rapid economic development with social justice – state sector to play a catalytic role

- Electricity – Concurrent List of the Constitution – Government at centre and states had jurisdiction over the sector

- Electricity Supply Act 1948 laid the institutional background – State Electricity Boards (SEBs) - monopoly rights to generate, transmit and distribute electricity within the state; no new private entry allowed

- state governments vested with significant property rights (authority) over this sector
Performance

- Till mid-70s these rights exercised combining equity with financial viability objectives

- Since the eighties parties in power engaged in opportunistic behaviour - political and financial ‘rent-seeking’

- Small farmers subsidized—extended to all—race to the bottom -zero pricing for electricity —and meters for agricultural consumption removed
Governance Failure & Reforms

- Opacity of agriculture consumption provided a convenient cover for increased rent seeking and inefficiencies.

- Gap between demand and supply rising, line losses increasing, financial losses of SEBs mounting.

- 1991, the ESA 1948, amended to bring in private sector participation in generation.

- 1998, drive to unbundle the generation, transmission & distribution entities and set up regulatory commissions to monitor.

- Electricity Act 2003 – landmark legislation that replaced all other existing Acts and set the stage for a redesigned institutional arrangement.
Reforms Failure

- Reforms - brought in privatization & competition without first ensuring an enabling environment – it was not easy to ensure this environment

- Circumvented the politically sensitive issue of rationalising and reigning in subsidies for agriculture consumption and metering them

- More and multiple layers of players introduced - often their incentives were at cross-purposes with each other and they operated in an environment that rewarded opportunistic behaviour

- Transaction costs in the sector increased tremendously for all the players

- Horizons for decision making shortened, coping mechanisms resorted to and overall costs increased
Rural Energy Access

- Rural consumption - heavily subsidized - access heavily compromised
- Inadequate energy access is stifling growth potential
- Climate concerns - opened up options for renewable electricity
- Rural areas have good renewable resource potential
Way Forward

- To tackle the twin challenges - vest the consumers with property rights to ‘manage’ their energy

- ‘Manage’ because they can now be producers and consumers – ‘prosumers’

- Create – ‘Consumer Private Partnership’ (CPP) based enterprises

- The CPPs can make their ‘produce or buy’ decisions

- The incentives of both the partners would be aligned towards improved access, efficient management, optimal levels of renewable energy & energy efficiency, and financial profitability
First start with rural consumers – source of and at the receiving end problems, have the renewable resources

Rural consumers lack the financial capability, technological know-how and managerial expertise - leverage private sector partnership

Once the rural enterprises stabilize and become financially viable the same can be done for the urban consumers also

Thus the present distribution utilities can be gradually unbundled into many CPP based enterprises
Advantages

- Energy consumption – no longer a private good – because of its public bad consequences.

- The best way to influence consumer behaviour - vest them with the property rights to manage and provide the right incentives to do so.

- EA 2003 provisions make this doable.

- Provides opportunity to simultaneously address adequate energy access as well as climate concerns.

- Reduces the direct control of state governments and paves way for independent regulation.
CHALLENGES??
Thank You ....