



Power Sector Reforms

This article is based on [“Band-aid for power”](#) which was published in The Indian express on 19/06/2021. It talks about the associated challenges with the power sector in India.

Amid the Covid-19 pandemic last year, the government of India announced a rescue package for the power sector under the [Atmanirbhar Bharat plan](#). This rescue package was arranged to prevent the entire power sector chain from suffering because of the discoms’ inability to meet their obligations.

This is not the first time (earlier intervention: [UDAY scheme](#)) that the Centre government has stepped in to aid discoms and tackle the problems plaguing the distribution segment. However, even after the repeated interventions, the end result has been the cash-strapped discoms looking for another rescue package.

This highlights the major structural problems ailing the power sector, which must be rectified for a sustainable power sector in India.

Associated Challenges

- **AT&C Losses:** Aggregate technical and commercial (AT&C) losses stem from poor or inadequate infrastructure or on account of theft or bills not being generated or honoured.
 - The UDAY scheme had envisaged bringing down these losses to 15 per cent by 2019.
 - However, as per data on the UDAY dashboard, the AT&C losses currently stand at 21.7 per cent at the all-India level.
- **Cost-Revenue Gap:** The difference between discoms’ costs (average cost of supply) and revenues (average revenue realised) is still high.
 - This is due to the absence of regular and revision in electricity tariffs.
- **Magnifying Effect:** Paradoxically, the government's push for ensuring electrification of all has contributed to greater inefficiency.
 - As household connections are ramped up, to support higher levels of electrification, cost structures need to be reworked, and the distribution network (transformers, wires, etc) would need to be augmented.
 - In the absence of all this, losses are bound to rise.
- **Economic Fallout of the Pandemic:** Amid pandemic, with demand from industrial and commercial users falling, revenue from this stream, which is used to cross-subsidise other consumers, has declined, exacerbating the stress on discom finances.
- **Low Investment:** Owing to the poor financial health of the discoms, there are less new investments in the electricity sector (particularly by the private sector).
- **Fossil Fuel Dominated Energy Generation:** Thermal power based on fossil fuel such as coal, natural gas and diesel accounts for 80% of the country's generation.
 - Moreover, the majority of plants in India are old and inefficient.

Way Forward

- **Eliminate Cross Subsidization:** High industrial/commercial tariff and the cross-subsidy regime have affected the competitiveness of the industrial and commercial sectors.
 - Thus, there is a need to ensure effective enforcement of rationalization of cross-subsidy.
- **Covering up AT&C Losses:** To manage the demand for power, it is necessary to introduce 100% metering-net metering, smart meters, and metering of electricity supplied to agriculture.
 - There is also a need to introduce performance-based incentives in the tariff structure.
- **Greening The Grid:** The [KUSUM scheme](#) provides a suitable alternative to the power subsidy model in agriculture.
 - The scheme intends to promote the use of solar pumps for agriculture and make provisions that local discoms should buy surplus power from the farmer.
- **Cross-Border Trade:** The government needs to actively promote cross-border electricity trade to utilize existing/upcoming generation assets. The [SAARC electricity grid](#) is a step in the right direction.

Conclusion

A solution that has now been pitched forward to deal with the ailing discoms, is the creation of a national power distribution company. However, without addressing the systemic challenges, it is difficult to see how a sustainable turnaround in the financial and operational position of discoms can be engineered.

Drishti Mains Question

Discuss the major challenges that are ailing the power sector in India.

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