Policy Watch- Power Tariff Policy

In the proposed **Draft Amendments to the National Tariff Policy 2016,** the government has included the provisions for imposition of **penalties** on the distribution companies **for the power cuts** with exceptions in case of **technical faults or Acts of God.**

- The **State Electricity Regulatory Commissions (SERC)** and **Joint Electricity Regulatory Commissions (JERC)** shall not consider **Aggregate Technical and Commercial (AT&C) losses** (the difference between energy input units into the system and the units for which the payment is collected) exceeding **15%** for determination of tariff.
- The proposed amendments in tariff policy include provisions related to **generation, transmission and distribution** of electricity.
- The penalty will be **levied, collected and credited to the accounts of the consumers** who have suffered.
- The tariff policy envisages **bringing cross subsidy between ±20% of the average cost of supply** which was also part of the **Tariff Policy of 2006. The Electricity Act, 2003** also says that the regulatory commissions must progressively reduce cross subsidies.

Tariff Policy, 2006

- It was announced by the **Ministry of Power** in **2006** in continuation of the **National Electricity Policy of 2005.**
- It includes certain provisions regarding **renewable energy and cogeneration.**
- Under it, appropriate electricity commissions would fix a **minimum percentage for purchasing energy** from the above mentioned sources and the percentages would be **determined by** the State Electricity Regulatory Commissions **(SERC) by 1st April,2006.**

Highlights of the Amendments to the Tariff Policy

Focus on Consumers

- **Accessibility:** Providing access to electricity in already connected villages and connecting whoever is left as soon as they apply for a connection in a reasonable time frame.
- **Affordability:** Consumers must get it at reasonable rates and a qualitative supply must be assured.
- **Performance-based time frames:** These time frames are codified in terms of standards of performance which the distribution company has to comply with (three days in some metropolitan cities).
- **Shift towards renewable energy:** To achieve this, the government is trying to bundle renewable energy with thermal generation because it is less expensive now and can bring down the cost of production, carbon emissions by burning less coal and promote clean energy.
- **Penalty:** The penalty or compensation has to be paid directly to the consumer account by the DISCOMs.

Extension to States

- All the flexible schemes are to be extended to the state level on a larger scale under **Merit Order Operations.**
- All the state power generating companies are brought into the gambit of **Security Constrained Economic Dispatch (SCED)** so the costlier power plants can stop producing and get power supply from a cheaper state if is not getting scheduled in some other state.

Merit Order Operations

- The **merit order** is a way of ranking available sources of energy, especially electricity generation, based on ascending **order** of price (which may reflect the **order** of their short-run marginal costs of production) together with the amount of energy that will be generated.

Security Constrained Economic Dispatch (SCED)

- The pilot for SCED was implemented on the **1st of April 2019** and is giving good results by **saving around three crores per day.**
- In this mechanism all the power generation stations which are **Inter State Generating** in nature, are being scheduled either through the **Regional Load Dispatch Centres (RLDC)** or **National Load Dispatch Centre (NLDC)** under a common scheduling platform.
- It was a challenge for **Power System Operation Corporation Limited (POSOCO)** and **NLDC** to first build up the platform but they did this in a period of 3 months.

How would regulatory commissions decipher what is a willful blackout?

- The regulatory commissions would need to put in place systems whereby they can establish objectively whether a power cut has happened due to unavoidable technical reasons or due to willful defaults.
- It becomes a **vague idea** where clarity will only come with implications and few questions arise which need to be taken care of-
    - If the DISCOM does not have adequate electricity to supply peak demand so whether it should buy more electricity for supplying or it should resort to loadshedding.
    - If the DISCOM has a technical fault so whether it tries to set it right in the optimal time frame or it delays for some reason and if the delay is willful or not.
    - If load shedding is done for the reason of grid stability whether it is done in a fair and equitable manner or the wealthy people are spared and the poor have to bear the difficulties.

Challenges

- **Undue Political Attention:** In electricity sector, the act says that the regulatory commission will determine the tariff but the political party and the civil society are not ready to accept that the matter is out of their hands.
- **Huge tariff Gaps:** The difference between the lowest and highest tariff is too high in India because of which it is paying a heavy price in terms of underdevelopment.
- **High Tariffs for Industry:** In both China and the USA the lowest tariffs are for the industry and in India they are the highest. India seems to prefer the consumer to the producer but India will not have jobs and growth unless the producers are given priority.
- **Financial Scarcity:** Poor states cannot provide subsidised electricity and do not have the budget for it so they end up pushing the regulatory commissions into persisting with very unreasonable cross subsidies on which they need to take serious actions.
- **Unreasonable Tariffs:** Tariff has to be reasonable particularly to a sector because unless we empower the DISCOMs and give them enough money to invest, a mere mandate is not going to happen.

- **Financial Viability:** It is also an area of concern, whether the DISCOMs will be able to do it or not.
- **Underinvestment:** The distribution network does not have investments and the DISCOM is unable to manage its financing properly and chooses not to buy electricity already available in markets.

How Delhi tackled the challenge of Financial Viability?

- This challenge is successfully tackled in New Delhi. AT&C losses were as high as 54% and more but today they are within 10%. So the 15% benchmark is possible to be realised.
- Delhi got successful because there was a partnership between the government and the DISCOMs. Investments were made at the foundational technologies. For example the **Supervisory Control And Data Acquisition (SCADA-** a computer system for gathering and analysing real time data) and the **Robotic Process Automation (RPA-** technology which allows anyone to configure computer software, or a "robot" to emulate and integrate the actions of a human interacting within digital systems to execute a business process) was brought in. The time was fixed and performance standards were laid.
- Delhi has 9000 crore regulatory overhang admitted by the government even though the claim is more and 8% surcharge has been levied which is approved by DRC for meeting the demand of circulatory overhang.

How Tariff Policy will help DISCOMs?

- By pushing them to make investments in distribution to avoid load shedding just because of the rise in demand.
- By compelling them to manage their finances enabling them to buy electricity in case of need.

How government ensures reduction in cross subsidy?

- By revamping the structure and rationalising consumers' categories and subcategories based on measurable parameters which are voltage, power and energy. Tariff should be set voltase wise.
- By rationalising tariff on the basic principles of electricity and measurable parameters which will end the whims and fancies of reallocating the tariffs without being backed up by any rational calculations.
- By letting the consumer pay upfront through billing mechanism or through the direct benefit transfer mechanism, if the government wants to pay subsidy.
- By sustainable political considerations.

Will 24*7 power supply be realised soon?

- It can be done by right policies with amendments in the right direction and at the same time the political will to ensure that theft is checked.
- If the tariff structure is rationalised and the opportunity for corruption is decreased, India can certainly move ahead towards this goal.
- Investment in technology and manpower training to fill the necessary gaps.