

'SUBSIDIES ON POWER WILL CONTINUE'

Relevant for: Indian Economy | Topic: Infrastructure: Energy incl. Renewable & Non-renewable

*The Centre's move to introduce the Electricity (Amendment) Bill, 2022 has stoked protests by Opposition parties and trade unions on the grounds that it violated the Constitutional principles of federalisation and was a step towards privatising the electricity sector and would make power costly. Secretary of the Ministry of Power, **Alok Kumar** speaks on the concerns over the provisions of the Bill, its intent and the reforms it envisages. Excerpts:*

The Bill was introduced in the Lok Sabha and referred to a Standing Committee following stringent protests. Did the Centre anticipate this degree of opposition?

When reforms are introduced, there are always different shades of views. This Bill was drafted following the Budget of 2021 and we have undertaken consultations with all States, industry bodies, regulators. Most States had supported the provisions. In the course of discussions, there were also objections on some aspects by States.

What were the concerns raised by States?

A major concern raised was that of 'cherry picking' (or when a new player with an electricity distribution licence can choose areas with maximum paying customers, and avoid regions where such electricity charges collection is historically negligible). This is incorrect.

All players with a licence continue to be bound by the Universal Service Obligation (that mandates power to be provided to rural and remote residents at affordable rates).

Second, we have proposed that the Central government prescribe the area to be served by a licensee ... and we have moved to further increase this unless the State government decides on a smaller area. A sufficiently large area, like a municipal corporation, for instance, would ensure a wide mix of consumers. We have built-in provisions such as cross-subsidy and wheeling charges in the maximum chargeable price, to safeguard against such cherry-picking. (Wheeling charges are money paid to an existing licensee by a new one for use of an electricity distribution network).

So, to clarify, farmers who currently get free electricity or those who get subsidised electricity will continue to receive them?

Absolutely. The Electricity Act doesn't mention 'free' electricity. Section 65 says State governments may give subsidies to any class of consumers and there is no change at all in this section. The State government will have the discretion to continue free or subsidised power. Reducing cross-subsidies have always been mentioned in the tariff policy (Electricity Act) and for it to be reduced as per the recommendation of the State commission. Those provisions continue. It is a complete myth that the new Bill proposes to do away with subsidies or free power.

A major problem in the electricity distribution sector is the poor financial health of electricity distribution companies (States collectively owe them over Rs. 1 trillion). Can the entry of private players, as the Electricity Bill envisages, solve this?

A discom's financial health depends on three factors: properly determining tariffs, the government paying discoms the subsidies it owes and their operational efficiency. This Bill helps

with strengthening discoms ability to determine tariffs, we have several provisions outside this Bill to see that these subsidies are paid and finally, the operational efficiencies of several discoms are improving over time. Of these, the first two factors are relatively more important.

Under the amended Bill, an existing licensee can earn wheeling charges from new licensees; second, there is a lot of unmet demand that this Bill will facilitate as well as improve the ability to collect charges and help fund cross-subsidies.

There are a lot of industries that have captive power plants because electricity access is unreliable and if they can be serviced by more players, that money will flow into the collective pool. This Bill will induce competitive pressure on incumbent licensees.

Is the telecom sector the reference point for which reforms in the electricity sector are envisioned?

The economic principle is that the same wire or network shouldn't be duplicated, it must be shared. We are also not changing the ownership structure of any asset.

The changes in the telecom sector saw job losses and churn. Do you expect similar things to happen here?

There will hardly be job loss, in fact, there will be new jobs because there will be new people to cater to...

States can subsidise but how will private players agree to this?

The Electricity Act doesn't distinguish between State and private sector licensees. A State government's decision to provide a subsidy applies to both public and private sector entities.

Full interview at

bit.ly/alokinterview

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