Rethinking open access in electricity

Recently, the Union ministry of power advised the Central Electricity Authority (CEA) to set up a committee to look into issues related to open access and brought out a consultation paper based on the committee’s findings. Open access is one of the key measures to bring about competition in electricity, whereby large consumers have access to the transmission and distribution (T&D) network to obtain electricity from suppliers other than the local distribution company (discom). Open access was expected to encourage investment by private players in electricity supply. Unfortunately, the success of open access has been very limited in spite of numerous attempts to facilitate it. This initiative by the power ministry should be taken as an opportunity to examine the basics of open access and re-conceptualize it, if necessary.

Instead of being an avenue to allow large consumers choice of supplier on a sustained basis, open access has become a way to allow such consumers to move back and forth between the discom and the market as and when they want. Not only is this phenomenon unfair to discoms, it also does not allow competitive suppliers to develop a stable customer base, defeating the purpose of open access. The current approach to open access may relieve, to some extent, the burden of cross-subsidization that falls on large consumers, by allowing them access to the market to get lower prices when they can. The high degree of cross-subsidization certainly needs to be addressed, but tariff rationalization is a political problem and, therefore, is best solved at the political level. Trying to bring about this change through open access is unlikely to succeed, as past experience shows.

The term “open access” itself is a misnomer for consumer choice, muddling the discussion. Open access to the T&D network is required by generators and suppliers, but not by consumers. Consumers need only to shop around for the best deal from competitive suppliers, and it should be the responsibility of the suppliers to obtain access so that the power can be transferred to consumers. Therefore, open access requests should only come from suppliers, not consumers. This distinction may help resolve another issue. For effective competition, open access to the T&D network by suppliers can and should be of any duration—short, medium or long term—so that they can assemble the most efficient mix of resources to serve their customers. However, as discussed later, exercise of choice by a consumer should not be a short-term transaction. Further, while open access is a prerequisite for choice, consumer choice is about more than open access. Choice also requires well-defined rules that govern the relationship between the discom and the consumer exercising choice, defining the rights and responsibilities of each. Not enough attention has been paid to these rules in state regulations.

The first step in re-conceptualizing open access is to recognize that service to consumers exercising choice is a distinct service, and not an extension of regulated supply. Large consumers should not be able to treat the discom as a mothership to which they can return whenever market prices rise. In addition, consumers exercising choice should be required to get all their electricity from the supplier of their choice, not just part of it, otherwise the discom has to handle all the variability of load, and that increases the discom’s planning burden and cost, and is unfair.

Open access for end-consumers should not be a short-term option. Discom tariffs are regulated and fixed for the entire year and thus represent an average over the year. Even an efficient discom will have tariffs that are above the prevailing market price at some times and below it at other times. If a very large consumer is able to cherry-pick the periods when it can get supply from the market, it would result in higher and higher costs for the discom. These additional costs would have to be borne by non-open-access consumers, many of whom are small consumers. Furthermore, unlike other markets, because its tariff is regulated and fixed, the discom cannot compete with another supplier by making a counter-offer to retain a consumer.

In states in the US that have allowed choice of supplier, similar concerns have been raised about giving excessive flexibility to consumers to move back and forth between the market and discom service, because discoms find it difficult and expensive to hedge against the risks posed by these swings in load. In those cases, restrictions have been placed on the time that has to elapse before a consumer can either leave a regulated service or return to it—usually 6-12 months. In India, because regulated tariffs are fixed for a year, similar time limits of 6-12 months should be placed to address the problem of frequent shifting. There should be no restrictions on switching between competitive suppliers.

It is possible that a large consumer may be dropped by its retail supplier for reasons beyond the control of the consumer; for example, bankruptcy of the supplier, or its inability or unwillingness to supply. In such cases, while the consumer shops for an alternative supplier, there should be short-term service priced to compensate the discom for its cost.

It is time to move beyond efforts to increase the volume of open access transactions by tinkering with how various open access charges are calculated. Instead, the initiative by the power ministry should be taken as an opportunity to re-conceptualize open access along the lines discussed here, so that its objectives are achieved.

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