

POWERING THE ENERGY SECTOR

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

“The wide-ranging provisions of the the Electricity (Amendment) Bill of 2020 will set the process of de-licensing power distribution after the monopoly of the state is dismantled”. File | Photo Credit: [The Hindu](#)

In an energy-dependent country like India, the availability of energy supplies at affordable rates is pivotal for fulfilling developmental priorities. But the energy sector is beset with problems. The distribution sector has for long been the bane of the power sector, consistently making huge losses owing to problems such as expensive long-term power purchase agreements, poor infrastructure, inefficient operations, and leakages and weaknesses in State-level tariff policies. Most discoms are deep into the red as high aggregate technical and commercial (AT&C) losses are chipping into their revenues.

Against this backdrop, the Electricity (Amendment) Bill of 2020 is a game-changing reform. The wide-ranging provisions of the Bill will set the process of de-licensing power distribution after the monopoly of the state is dismantled. This will provide the consumers with an option of choosing the service provider, switch their power supplier and enable the entry of private companies in distribution, thereby resulting in increased competition. In fact, privatisation of discoms in Delhi has reduced AT&C losses significantly from 55% in 2002 to 9% in 2020.

Open access for purchasing power from the open market should be implemented across States and barriers in the form of cross subsidy surcharge, additional surcharge and electricity duty being applied by States should be reviewed. Discoms and regulators should be brought on board for proper implementation of open access, which will provide more options to consumers to choose their discom just as they are able to choose telecom providers.

The question of tariffs needs to be revisited if the power sector is to be strengthened. Tariffs ought to be reflective of average cost of supply to begin with and eventually move to customer category-wise cost of supply in a defined time frame. This will facilitate reduction in cross subsidies. All this will happen when discoms are made autonomous and are allowed by regulatory authorities to revise tariffs without interference from the States.

Electrical energy should be covered under GST, with a lower rate of GST, as this will make it possible for power generator/transmission/distribution utilities to get a refund of input credit, which in turn will reduce the cost of power. Other antidotes to the problem include use of technology solutions such as installation of smart meters and smart grids which will reduce AT&C losses and restore financial viability of the sector.

The impetus to renewal energy, which will help us mitigate the impact of climate change, is much needed. One option is to encourage roof-top solar plants. Despite its inherent benefits, the segment has shown relatively slow progress with an estimated installed capacity of 5-6 GW as on date, well short of the 2022 target.

Another welcome feature of the Bill is the strengthening of the regulatory architecture of the sector. This will be done by appointing a member with a legal background in every electricity regulatory commission and strengthening the Appellate Tribunal for Electricity. This will ensure faster resolution of long-pending issues and reduce legal hassles.

The Bill also underpins the importance of green energy by proposing a penalty for non-

compliance with the renewable energy purchase obligations which mandate States and power distribution companies to purchase a specified quantity of electricity from renewable and hydro sources. This will ensure that India gradually moves towards non-fossil fuels thereby helping it meet its global climate change commitments.

Some other significant features of the Bill such as the creation of an Electricity Contract Enforcement Authority to supervise the fulfillment of contractual obligations under power purchase agreement, cost reflective tariffs and provision of subsidy through DBT are commendable. Early passage of the Bill is critical as it will help unleash a path-breaking reform for bringing efficiency and profitability to the distribution sector.

T.V. Narendran is President, CII

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