energywatch

India's Power Sector : On the way of Reform

India's Power Sector : On the way of Reform

Electricity as a subject is in the concurrent list of constitution of India. It means that both the Union and the State Governments can formulate policies and laws on the subject but the responsibility of implementation rests with the states. Distribution of electricity in particular comes in the domain of the states.

Chiefly led by the Center, the reforms began 1991 although at the wrong end o generation instead of distribution of power. Perhaps this was due to the fact tha opening generation for private sector was considered to be politically easy. In October 1991, Union Power Ministry began to publish a series of notifications seeking to encourage the entry of privately owned generating companies into tł electricity sector. These government orders, some of which were later enacted i Parliament to become the Electricity Laws (Amendment) Act of 1991, radically revised prevailing legislation by permitting private entities to establish, operate and maintain generating power plants of virtually any size and to enter into lon term power purchase agreements with SEBs. The initial government notificatior also provided generous incentives to these independent power producers (IPPs) the most noteworthy of which was a guaranteed minimum 16 percent (repatriable) return on equity for plants that operated at their rated capacity for at least 6000 hours in a year, with additional bonuses for improved capacity utilization. Other attractions for potential investors included a five year tax holiday, a two-part tariff (the first part covering fixed costs including the assure return, the second covering variable costs), equity requirements that were as lc as 20 percent of project costs, and selective counter-guarantees from the centr government to cover payment default by SEBs. The rules were clearly intended to attract foreign private capital into the sector, because they allowed 100 percent foreign equity but insisted that Indian financial institutions not provide more than 60 percent of the total debt component of any given project.

From both domestic and international investors the response to the incentives offered was
overwhelming. By mid-1995, there were about 189 offers to increase capacity b over 75GW, involving a total investment of over US$100 billion. Of these, 95 projects for a total installed capacity of 48,137 MW had reached the stage of Memoranda of Understanding (MOUs) or Letters of Intent (LOIs) with state governments. But meanwhile, since none of the projects had yet reached financial closure, the central government introduced another set of carrots, granting "fast-track" status to eight of the most promising projects and agreein to offer them counter-guarantees.

Overall, though, for all the excitement with which it was launched, the reform program
turned out to be a dud: against a target of over 40,000 MW in the period 1992-97, less than 17,000 MW were added, but that was hardly its most controversia aspect. As we shall see below, like the institutional impacts of lowered agricultu tariffs and de-metering in the 1970s and 1980s, the IPP policy of 1991 created new forms of lock-in with serious implications for all subsequent reform

Slowly and rather painfully, the policy makers realized that the problem lies wit States and that without comprehensive reforms in Transmission and Distributior reforms in power sector would remain a pipe dream. Though, reforming the transmission and distribution segments, have been under discussion at least since 1993 when a committee of the National Development Council (NDC) comprising six chief ministers was set up, nothing worthwhile was achieved. Conferences of chief ministers/power ministers were held in 1996, 1998, 2000 and 2001 and some of the important recommendations / resolutions of the conferences/committees included:

- Rationalisation of tariffs through independent regulatory commissions
- Adoption of transparent policies on subsidies, acceptance of a minimum all-India agricultural tariff
- Benchmarking of tariff at the minimum of 50 per cent of cost of supply and agricultural tariff not to be less than 50 paise per unit
- 100 per cent metering and energy audit, reduction of T and D losses through elimination of theft and strengthening/upgradation of sub-transmission and distribution system
- Privatisation of distribution in major / medium sized urban and semi-urban areas
- Decentralised distribution management in rural areas.

In spite of the ritual of holding conferences of chief ministers and power ministers each year, the resolutions passed at these meetings remained wish lis