

Enhancing Global Competitiveness by Reforming Power Sector - A Case Study of India

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The imperative of globalization has necessitated the nation's world over to grid up their loins to become globally competitive. In a scenario where the entire world is shrinking into a global village, all the economies whether developed or developing need to fortify themselves. This fortification is *sinequanon* for the very survival of economies in a fiercely competitive ambience which is the offshoot of globalization. Globalisation demands vibrant economies that perpetually strengthen themselves by remaining competitive and bring drastic changes in their economies as a substitute for archaic provisions that emaciate the competitive strength of an economy.

Globalisation has triggered conspicuous changes in almost every sector of almost every economy, which doesn't want to be singled out in a globalised world. Finance, industry, trade, infrastructure every sector is being reformed.. Among all the changes the countries are embarking on, efforts for reforming the power sector deserves a special mention. Whether the developed or the developing countries, everyone has power sector reforms on their agenda of meeting the challenges of global competition. India is no exception. It has been pursuing power sector reforms with dogged perseverance in an attempt to become globally competitive.

The year 1991 will go down as a very significant year in the annals of India's economy. In the aftermath of gulf war, India and the socialist economies were in grave economic crisis. India had foreign exchange bare enough for a fortnight. It was on the verge of becoming a bankrupt country. This compelled India to apply for a massive loan to World Bank. The conditionalities imposed by the World Bank compelled India to convert it's highly regulated economy into an open economy. World Bank wanted India to undertake "congenial" "foreign investor friendly" measures. Foreign investors perceived India's power sector as very fragile and tattered and as a major stumbling block in their way to India as an investment destination. We were left with no other alternative except to bring power sector in the ambit of reforms. This is how India's arduous journey of power sector reforms began.

The first generation of reforms commenced in 1991. The vertically integrated state electricity boards were unbundled. Generation, transmission and distribution being separated from one another. This was supposed to result in economies of scale. Private sector participation in power sector in the form of Independent power producers both domestic and foreign was encouraged by giving them sovereign guarantees. Private sector participation in the power sector was to bring in the necessary expertise for revitalizing the power sector which has always been a government monopoly. The passage of electricity regulatory commission act in the year 1998, led to the establishment of regulatory commission at the centre and in states. The regulatory commissions were expected to remain independent and the distance themselves from political interference. This in turn was meant to solve the problem of politicization of tariffs, resulting in irrational and skewed tariff structure, which always has been an anathema for the power sector in the country. The first generation reforms established the framework of reforms and became a harbinger of change and set the pace for second generation reforms. These reforms commenced with the passage of electricity act in the year 2003. The electricity act seeks to make power sector very robust and India globally competitive. It will not be an iota of exaggeration to say that this legislation is going to change the sector dynamics, revolutionize it, so that India can compete at a global level as one of the important destinations of foreign investment. The delicensing of generation, power trading, open access, private sector participation, captive power generation are considered as ingredients of a globally competitive power sector.

Generation has been liberalized and freed from licensing. It no longer requires techno economic clearance. Thus generation is freed from the clutches of bureaucratic red tapism. The act

recognizes power trading as a separate activity. Power would be traded like any other commodity. The buyers will have a wide choice of sellers and vice versa. The intense competition among the sellers would mean economically priced power. If the growth in the power trading continues unabated, then demand supply mismatches will be a thing of the past. The provisions of the electricity act have given an impetus to power trading. Following the footsteps of the power trading corporation some of the business houses have set up trading companies. For instance, TATAS, ADANIS, RELIANCE, NTPC, are now engaged in interstate trading, which has triggered competition in trading of electricity. The concept of power trading is new to Indian power sector and is still in a nascent stage, having a traded volume of 15 billion units. However, as the power sector reforms as envisaged by electricity act takes off, power trading, power exchange, which hitherto were foreign terms, for Indian power sector will now become a permanent feature.

Open access and multiple distributions are another two key provisions which would spur competition in the power sector. Open access facilitates a consumer to obtain their supply of electricity from a generating company or any licensee, other than the distribution licensee for the area. Open access is likely to empower the most important stakeholder i.e. consumer, by giving a choice for supplier of power ultimately creating a pressure on service providers for the better quality of service at competitive rates.

The private sector participation and the public-private partnership is another component of power sector reforms which is a positive development. This infact is going to be one of the emerging driver of power sector. The provisions of electricity act seek to undo the damage done initially to IPP's during the first generation of reforms. Private sector participation in generation gets reflected in participation by private players such as Reliance, Tata Power, GMR, and Lanco among others. If the power sector reforms continue unhindered, then the private sector participation, in future would make the electricity industry in our country on par with the global standards. Public-private partnership will be a synergy in which strength of both public and private sectors are blended judiciously. The concept of ultra mega power projects is an example of combining public and private sector strengths. In a public private partnership the government arranges for land, water, roads, coal linkages and such other infrastructure to the private developer who on his own may find it difficult to acquire. The government as the largest owner can easily do this. The private sector on the other hand with its project management and operational skills is well suited to take off from the stage where infrastructure is provided. The progress of Mundra and Sasan UMPPs (Ultra Mega Power Projects) is the result of the partnership between the government and the private sector.

The distribution sector which was the most neglected entity in power sector has got a boost with APDRP. Known as APDP in its previous avatar APDRP is a six level intervention strategy in various distribution circles of the states, which is gaining strength with every passing year. Its note worthy achievements are greater loss reduction and improvement in consumer services. It has created a favorable impact on state power utilities, by acting as a motive for pursuing reforms. In 2001-02, the all India figure of commercial losses was 292.52 billion. It came down to 216.67 billion in 2004-05. The loss in percentage of turnover, which stood at 36.5 % in 2001-02, came down to 20.7 % in 2004-05 metering initiatives and IT initiatives introduced goes to the credit of APDRP.

The saga of power sector reforms doesn't end with this. There are several other reform measures such as, national tariff policy, national electricity policy, that is going to change the face of power sector. Armed with the reforms measures and gains secured, India may be able to face the cut throat competition of globalisation.

It however becomes pertinent to raise a question whether the roads to reforms in power sector is smooth? Are there no weaknesses in power sector? The answer is an emphatic "NO". If these weakness and threats are ignored then the gains secured will get nullified. The success of reforms

in future would depend upon how well we overcome the weakness and on how resilient we are in facing the threats.

Political interference is in one such impediment. The myopic policies sans economic considerations, framed by inept politicians, bureaucratic inertia may send wrong signals to the foreign investors making them skeptic. The investors both domestic and foreign may not view the undue political interference in tariff setting, power purchase agreements. The regulatory commission has still not been completely successful in distancing their decisions from political interference. Free power to farmers which is still a feature of power sector is a pointer towards towards the failure of regulatory commissions in stemming the tide of political interference. The SERCs have been tardy in issuing regulations for open access. Some of them have not even filed their annual returns. They have been averse to ask utilities to provide time bound action plans and monitor them over the years. The result being, no state commission has been able to set achievable targets for reducing T and D losses. Most regulators are hesitant to use even the limited penal power given to them under law. Though the initial response of domestic foreign investors to the policy of private participation has been encouraging, certain difficulties have been encountered. These pertain to finalization of PPAs, guarantees and counter guarantees, environmental clearances and legally enforceable contracts for fuel supplies. Selling power to a monopoly buyer such as the SEB, which is not financially sound, irregularities in fuel supply arrangements with public sector fuel suppliers, with penalties for non-performance, were other areas of concern. In order that the PPP becomes successful, clear government commitment, sound legal and regulatory framework, stakeholder involvement, clear ownership structure, operational accountability, cost-recovery tariffs and systematic approach is required. Power trading will be successful only when government, policy-makers regulators and all other stakeholders lend their support. In the absence of such a support, the provision of power trading would remain only on paper. Development of national grid, large transmission capacities, support from central government in the form of provision of access to competitive sources of generation, the efforts on the states to become financially viable, are the factors that are necessary to have a full fledged power trading and a matured power market.

Lately, power sector reforms have acquired positive hues. The reforms have to be pursued tenaciously. Electricity has become an important determinant of economic development. Higher per capita consumption of electricity is considered as one of the indices of economic development. For a developing economy like India, electricity as a form of energy is a critical component of infrastructure for the much needed development of the country. Dearth of electricity is likely to create an impediment for the all round sectoral development of the country, eventually affecting its global competitiveness. Survival of economies in the globalised world among other things also depends upon how well you cash on the gains acquired in infrastructure. Power sector reforms have to continue unabated. The task of turning around the power sector is still unfinished. We have to rid the power sector of its weaknesses. We have to see to it that the threats that endanger the power sector reforms do not raise their ugly heads. Fuel shortages, unelectrified villages, T and D losses, are some of the weaknesses that need urgent attention.

The electricity act is a progressive legislation. There is a potential threat of such a legislation succumbing to politics of populism. Free power to farmers is one such “politics of populism”. Many states have still not unbundled their vertically integrated utilities. Deadline for unbundling is repeatedly being extended. SEBs are restructuring them selves at their own pace. The callous attitude of the state government is likely to dilute the original spirit of the electricity act.

There are only 13 states that have restructured. Electricity act is expected to bet the torch bearer of reforms. The provisions of the electricity act have to be implemented in right earnest, resisting any political pulls and pressures. Politics getting precedence over economics is a formidable barrier for power sector reforms.

The regulatory commissions need to harness their energies. They need to vehemently oppose any political interference in their working. Politicization of tariffs is manifestation of interference. A



study by pune based prayas energy group throws light on the fact that, much needs to be done to sustain the independent status of the regulatory commission.

If the weaknesses are not corrected and the threats are allowed to assume dangerous proportions, power sector reforms will reach a dead end and hamper India's global competitiveness.

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