



## Commentary on crucial central sector policy proposals that are still in the draft stage

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Ann Josey<sup>1</sup>, Prayas (Energy Group)<sup>2</sup>

In response to the emerging transition in the electricity sector, central sector agencies have put up several policy and regulatory proposals for public consultation in the past couple of years. However, many of these crucial proposals related to planning, rate design change, capacity addition, open access, captive generation, renewable energy integration and the operationalisation of electricity markets have not been finalised.

Policy clarity on crucial matters from the centre is necessary to ensure a consistent approach and long-term strategies to address critical issues in a dynamic sector, especially in a federal system. Delay in finalizing policies and schemes results in missed opportunities for necessary, time-sensitive changes in the wake of the rapid, structural and technological transformation in the electricity sector.

### 1. Crucial Policies in the draft stage

Some illustrative examples for critical proposals that are in the draft stage are listed below. Rather than the substantive aspects of the proposal and their applicability, the examples are intended to highlight the uncertainty which the sector faces, as these proposals have neither been adopted nor set aside.

#### *Provisions related to Captive Generating Plants in Electricity Rules*

On 22<sup>nd</sup> May 2018, MoP [proposed to amend](#) the Electricity Rules, 2005 pertaining to captive generating plants. A generating unit is awarded captive status when its consumers contribute to 26% of the equity base and use 51% of the energy generated. When classified as captive, consumers are not required to pay any cross-subsidy surcharge (CSS). The draft specified that preference share capital or equity share capital with differential voting rights will not be counted while determining compliance to the 26% equity criteria. This would discourage non-serious players who are opting for captive only to evade CSS with minimal investments. In a move to further encourage long term investment in the sector, consumption by subsidiary companies was proposed to be counted while noting compliance to captive consumption at 51% of generation.

#### *Short-term sale of power through tariff based bidding process*

MoP [published draft amendments](#) to the bidding guidelines for short-term (duration less than a year) procurement on the 6<sup>th</sup> of March 2019. The guidelines sought to allow open access consumers to participate as buyers on the central government's DEEP portal<sup>3</sup>.

Currently, only electricity distribution companies (DISCOMs) can advertise the power requirement and buy from generators on DEEP. While open access consumers can procure power at competitive rates on the power exchanges, the duration needs to be less than a week. For longer durations, open access consumers, facing high information asymmetry, would need to sign bilateral contracts with generators and traders.

In addition, the guidelines also allowed generators to invite bids from buyers for capacity they had to offer. Thus, adoption of the proposals would have resulted in better utilisation of generation capacity as well as increased options for open access consumers.

### *National Tariff Policy (NTP) amendments proposed in 2018*

The [draft National Tariff Policy](#) was published by the Ministry of Power (MoP) on the 30<sup>th</sup> of May 2018 for comments. Some of the crucial proposals are listed below:

- Fixed charges in retail tariffs to be set to reflect at least 50% of the fixed cost for domestic, agricultural consumers and 75% of the fixed cost for all other consumers within three years.
- DISCOMs to demonstrate that they have tied up long/medium-term power purchase agreements (PPAs) to meet average annual requirement. In case of non-compliance, their licence is to be suspended.
- Quality of supply to be as per standards specified by the Central Electricity Authority (CEA) and penalties are to be imposed on DISCOMs in case of failure to meet standards. Penalty amount to be credited directly to consumer accounts.
- Revenue subsidies using Direct Benefit Transfer (DBT) into consumer accounts.
- State Electricity Regulatory Commissions (SERCs) are not to pass on burden of Aggregate Technical & Commercial losses in excess of 15% during tariff determination after FY19.
- Universal adoption of pre-paid meters in time-frame to be specified by SERCs.
- Levy of cross subsidy surcharge (CSS) limited to one year from the date of opting for open access

As per [newspaper articles](#), the draft is under deliberation by an inter-ministerial group set up by the Union Government. The draft NTP was published around 3 months before [the draft amendments to the Electricity Act, 2003 \(E-Act\) in 2018](#) and many of the proposals in the draft NTP were also suggested in the draft E-Act amendments.

The Ministry of Power has published another version of [proposed amendments to the E-Act on 17<sup>th</sup> April 2020](#) for public consultation. The draft, among other amendments, proposes that regulatory commissions should ensure cross-subsidy reduction as per the trajectory specified in the National Tariff Policy. Thus, it seems like the NTP amendments will be finalised, depending on the progress in enacting proposed E-Act amendments.

### *Grant of Connectivity and General Network Access to the inter-State transmission system*

The Central Electricity Regulatory Commission (CERC) [published](#) the draft Grant of Connectivity and General Network Access to the inter-State transmission system regulations on 14<sup>th</sup> November 2017. In order to aid better transmission system planning, the draft proposed to create a repository of all generators in the planning and construction stage. To operationalise this, generators are to apply for connectivity only after registering themselves at a central repository at least four years prior to the anticipated commissioning date. The central repository is to be updated every month and mostly managed by CEA. Further, generators are to transact power only after signing PPA for sale of power or participating in the power exchanges. The draft regulations also provide clarity on critical issues such as the construction, sharing and handover of dedicated transmission lines, treatment of renewable energy (RE) parks and managing transmission constraints.

### *Report on optimal generation capacity mix for 2029-30*

In February 2019, CEA [published](#) a draft report which focussed on assessing the least cost capacity mix that would be required to meet electricity demand (as projected in the [19<sup>th</sup> Electric Power Survey](#)) for FY30. The draft report is timely as it provides an assessment of RE that can be added in a cost-optimal fashion and also explores the role that battery-based energy storage systems can play. Finalising this report, based on comments and suggestions on potential changes in technology, methodology for assessment, scenarios and assumptions regarding demand and supply would contribute significantly to the current discourse where DISCOMs are assessing capacity addition requirement in the wake of the transition.

### *National Energy Policy (NEP)*

The NITI Aayog [released a draft version of the National Energy Policy](#) on 27<sup>th</sup> June 2017. If released, this NEP would have been the first comprehensive policy document covering crucial demand and supply sectors in the energy sector since 2006<sup>4</sup>. It has specific provisions regarding the capacity and powers of crucial institutions such as central and state regulatory commissions, Bureau of Energy Efficiency (BEE) and state nodal agencies under the Ministry of New and Renewable Energy (MNRE). It also has several provisions for disclosure on critical data in the energy sector as well as specific provisions related to air quality. Finalising the NEP could ensure improved multi-sectoral coordination and optimal resource use. The intergovernmental International Energy Agency [recently urged](#) for its finalisation for similar reasons.

### *UNNATEE- Strategy Plan by BEE towards developing an energy efficient nation (2017-31)*

BEE [published](#) Unlocking National Energy Efficiency Potential (UNNATEE) for public consultation in February 2019. The document discusses the energy savings potential in India and proposes an implementation strategy to ensure savings while considering impact of various schemes, policy commitments and changes in technology. The strategies presented in the document relate to better energy data collection and management, strengthening state-level institutions, setting targets and raising finances.

## 2. Stakeholders treating the draft as final for critical decisions

In the policy vacuum due to delays, sector actors have been citing the draft version of the policy to justify crucial decisions in the state. For example, DISCOMs in [Maharashtra](#)<sup>5</sup> and [Karnataka](#)<sup>6</sup> have petitioned SERCs to significantly increase fixed charges for consumers considering the proposals in the draft policy.

In some cases, it has been observed that sector actors are in the implementation phase even before the policy is finalised. For example, the MNRE issued a draft scheme for supply of round the clock (RTC) power from RE projects complemented with power from coal-based plants on the 2nd of January 2020. The proposed draft has several areas with lack of clarity regarding implementation and implications for capacity addition planning. While the proposal is still in the draft stage, SECI<sup>7</sup> issued a [notice inviting tender](#) for 5000 MW of RTC power from RE projects complemented with thermal power on the 31st of January 2020 and invited [request for selection](#) bids on the 17th of March 2020. It is quite likely that the scheme would remain in the draft stage by the end date of submission of bids (i.e.-04.05.2020).

## 3. Finalised schemes not implemented yet

Concerted effort and policy support is required to not only finalise proposals but also to implement them. Some crucial initiatives launched in the past couple of years by central sector agencies to improve operations

have yet not been implemented. Such delays contribute to the uncertainty. For example, CEA was to launch an [e-registration portal](#) to ensure that all generators in the country with capacity exceeding 500 kW would be able to register with the authority. Such a portal would enable periodic tracking of all conventional and RE generating capacity, including off-grid systems in the country. The information required from registering generators include details on date of commissioning, location coordinates, ownership, fuel linkage, ramping capability, interconnection voltage level and technical minimum. Details are also sought for planned capacity where construction has not begun. In the absence of a centralised source to assess the capacity and capability of the generation fleet in India, such a portal would provide critical inputs for planning. The portal is yet to be launched and there have been no progress updates [since June 2019](#).

Similarly, CERC [notified amendments](#) to its open access regulations in 2019 to operationalise the National Open Access Registry (NOAR). NOAR is to be an online platform for intra-state short-term open access transactions to track status of applications, provide information to various stakeholders on clearances, enable online payments and provide periodic reports. Such a platform could streamline processes and ease communication with respect to open access but is yet to be launched. It is interesting to note that there have been previous delays to operationalising the NOAR. The necessary amendments were notified two years after the [staff paper](#) detailing the idea of the NOAR was published.

Unlike the proposed amendment of the Electricity Act, 2003 which requires political consensus, some of these proposals could have been finalised without significant resistance from states. As discussed, many of these proposals cover issues that stakeholders in the sector are currently grappling with. Keeping aside the merits and issues with each of the proposals, providing policy clarity (by finalising or setting aside proposals) would help reduce uncertainty in the sector and help with planning investments, strategies and coordinated efforts. It is hoped that timely interventions and clarity is provided in the future.

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<sup>2</sup> This article is part of an ongoing series called Power Perspectives which provides brief commentaries and analysis of important developments in the Indian power sector, in various states and at the national level. The portal with all the articles can be accessed here: <https://prayaspune.org/peg/resources/power-perspective-portal.html>. Comments and suggestions on the series are welcome, and can be addressed to [powerperspectives@prayaspune.org](mailto:powerperspectives@prayaspune.org).

<sup>3</sup> The Discovery of Efficient Electricity Price (DEEP) portal is managed by MSTC Limited for MoP. It is an online portal for transparently conducted continuous bilateral medium and short term trading of electricity through competitive bidding.

<sup>4</sup> The Integrated Energy Policy was published by the erstwhile Planning Commission of India in August 2006 covering demand, supply options, investments as well as socio-environmental impacts. It is available here: [http://planningcommission.gov.in/reports/genrep/rep\\_intengy.pdf](http://planningcommission.gov.in/reports/genrep/rep_intengy.pdf).

<sup>5</sup> Refer to page 202 of the tariff petition

<sup>6</sup> Refer to page 198 of the tariff petition

<sup>7</sup> Solar Energy Corporation of India Limited (SECI) is a public sector unit focused on the implementation of MNRE schemes, solar project development and trading.