# Observations and Remarks

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**Observations as the Chairman of the First Session**

1. With regard to Mr. Matthai's presentation the one point that was unclear to whom the Regulatory Commission was accountable. There was however a hint in his conclusion. The real source of strength of the Regulatory Commissions is the public, which has to act like the watchdog.

2. In context of tariff determination, we should not see international experiences as benchmarks, because these experiences were based on market determined prices even in the pre-regulated era. In India, however, there was an administered price regime in the pre-regulated era and that is no reflection of true cost. Therefore, when we try and reflect true costs, the prices are going to increase.

3. The point of merit order dispatch is that it will not work in a scarcity scenario. We must be careful when we say scarcity because scarcity may be artificial or real. It is based on demand, but demand calculations may be based on exaggeration and they exclude the possibility of efficiency improvements and demand side management.

4. Tariff fixing requires that people should be consulted. In Andhra Pradesh, we have just seen that although tariffs may have been revised using rational methods, if people are not involved, they are not going to accept these revisions. Maharashtra has done a good job in this regard

5. As regards the regulatory commission and their current resource constraints, I believe that this constraint might actually be a strength, because when the RCs do not have internal capacity they have to turn to civil society and when that happens the combined resources are enormous.

6. At times the governments tend to ignore the commissions and keep on issuing orders to the commissions and the state electricity board and at other times the government puts up its hand stating that the regulatory commission has the entire responsibility for the sector. The state governments need to be reminded that they still have the role of determining policy.

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**Remarks by Prof. AKN Reddy in the Second Session**

Let me change the focus and look at the big picture. To begin with let us understand where the regulatory commissions come from. They are definitely the product of the power sector reforms. In the pre-reform era, the sector was government controlled, had administered prices, government subsidies, theft, large T & D losses and a capital crisis. A decision was taken to go away from this and the solution thought of was to corporatise the sector and liberate it from government control.

The first assignment of the regulators was the process of tariff reform and this has become a preoccupation and many approaches have been devised. Basically the entire exercise is to match expenditure with revenue and the question of therefore apportioning the revenue increase between the consumer groups. Currently no logic is being applied to this except the logic of pushing all the groups to the maximum limit. From a long-term point of view this cannot continue, how can we expect people to pay increased tariff unless there is a perceptible improvement in the quality of the power supplied? Also, we are not looking a coupling efficiency with tariff.

There is also the question of public benefits like efficiency and sectoral planning, which will get jettisoned with increased corporatisation. Then there is a question of greater access. The regulators are so preoccupied with existing consumers that no one is thinking about future consumers who need to get added on. There is also the question of environmental soundness through efficiency and use of renewable resources, question of long term R & D in this sector and consumer empowerment. The entire process has to be synergistic i.e. transparent, participative and accountable. In short, the power sector must contribute towards sustainable development.

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