

## **Consumers and Electricity Sector Regulation**

**Sanjeev Ahluwalia**

*Former Secretary, Central Electricity Regulatory Commission*

Independent regulation is good for consumers. Whether we look at developing or developed countries we see that independent regulation has benefited consumers through lower prices and improvement in the quality of supply and service.

In India however the situation is different. A large section of the population, which consume roughly 60-70 % of the power generated, do not pay the cost of making this supply available to them. These consumers are broadly classified into domestic consumers, low-tension consumers and agricultural consumers. Since they have been paying less than the cost of supply it is somewhat inevitable that with the setting up of the regulatory commissions, these consumers would in the medium term have to pay more than before. However it is wrong to associate price hikes with reform and thus conclude that the post reform supply system is more costly than the one prevailing prior to reform. The supply system prior to reform had become bankrupt and restoring financial viability to this system will ensure that consumers continue to get supplies as demanded by them. Not to set the system right would mean a worsening of the supply position and lower levels of consumer satisfaction.

Consumers should also remember that tariff hikes are not an exclusive phenomenon of the post reform era. Even prior to reforms, tariff hikes kept the cost of supply high and even inefficient costs were passed through to consumers. The average tariff for NTPC has increased by 9% every year whereas the average inflation has been at 6%. So the average tariff for NTPC has gone up by more than 50% as compared to the increase in the consumer price index. The same system exists in all states. There are periods when the state government has been very conservative in increasing tariffs followed by periods when they suddenly increase the tariffs. On an average in the last 10 years SEB tariffs have increased by 10-12% annually which is a significantly high number considering that inflation has been at 6 % over the same period. This was not a result of independent regulation but an outcome of non-transparent intervention by State Governments, which set tariffs prior to reforms. Even if commissions continue to increase average tariffs at the same average rate as in the past, so long as they rationalize tariffs they will end up doing a good job.

Rationalising tariffs would involve charging consumers what it costs to serve them. Industry pays 180% of the cost of supply at high voltages whereas the farmers pay 15-20% and domestic consumers pay 60-70%. There is a need to change as to who pays how much so that not only the average goes up but the correct price signals are introduced into the power economy. Why is this important? Firstly, charging much less than the cost of supply induces wasteful use of energy which is avoidable both from the financial viewpoint and that of the environment since energy use is one of the primary causes of air, water and soil degradation. Secondly ensuring that goods and services are made available at "efficient" prices is good from economic growth. We talk about the fact that all the money goes into generation. How can any money be allocated to transmission or distribution if correct price signals are not sent to these sectors? If the price signals are correct and if managerial incentives exist and if

organizations are working on commercial principles there would be an optimum capital allocation which would result in a more efficient and more capable power industry. Rising prices and increased cost burden of supply are the result of the poorly organized, poorly financed and inefficient industry. This is exactly what independent regulation has to address.

People do not believe in regulatory commissions because they see no early gains. The first tariff order was issued in 1996 in Orissa. The gains from this are not yet visible. One of the positive results of regulations has been the 'Availability Based Tariff order' of the Central Commission. It looked at the kind of incentives available to the central power generators to improve the availability of their capacity. It found that over time incentives had become redundant. Plants were running at 70% while their target availability to NTPC was stuck at 62.5%. Therefore the minimum target availability for recovery of fixed cost was up scaled up sharply from 62.5 to 80%.

The Central Commission looked at operational and maintenance norms. It looked at depreciation rates, which have been revised twice in the last 12 years from 3% to 8%. This was done by the Government of India at the time as it was felt that the cash flow generated by the power producers were insufficient to finance future growth of the industry. As a result this was one of the quick-fix solutions found by the government. But from the consumer point of view the cash burden increased from 3% to 8% within 10 years. This was not necessarily a good measure. There are other ways to increase the cash flow. As a result of this order of the CERC reducing the applicable depreciation rates and the increasing the target level for claiming incentives and for claiming recovery of fixed costs NTPC anticipates that it will lose Rs 1800 crores per annum. NTPC's loss is the consumers gain.

The objective of the commission is to make producers use their existing capacities better and in a more efficient manner. Higher utilisation of capacity is the best way to reduce the burden of fixed cost on the consumer. Pegging incentives at challenging levels will incentivise suppliers to increase capacity utilisation which in turn will bring down the charge for the consumers. This is a result of independent regulation. If we look at the 5 orders issued by the different state commissions we observe that they are all in the right direction even if the specifics differ from state to state.

We should therefore support independent regulation. We can support it in many ways. Firstly they need your support in the appeal process once they have issued an order. Regulators feel helpless in the appeal process. Being a quasi judicial institution itself it is not best placed to defend its own order on a judicial platform. It is therefore the duty of the civil society to become participants in this process.

Independent regulation needs support in other ways. Public utilities are very powerful. Channels of information need to be monitored by civil society groups and feedback provided to the regulators. They can also look at becoming distributors in their own areas and take over managing the process at the local level. It has worked in other countries like Argentina and we can definitely try the same.

In conclusion, my message to you is please support the good guys. Please support competence, integrity and public purpose. Public utilities can function well only if civil society has a stake in good management. Consumer groups need to live up to this responsibility. Please recognize that there is a cost to producing power. Quick

comparisons across countries of the cost of delivered power without factoring in differing tax rates, labour laws, minimum wage levels etc, all of which are country specific, does not provide a useful statistical base for making intelligent comparisons. Civil society groups can also help out in demand management by propagating conservation and increased use of renewable energy sources. Remember in supply constrained economies like India the Long Run Marginal Cost will be much more than the historical cost. Hence the path to affordable power is also the path to more efficient generation, supply and consumption of power.

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