

Trends and Way Forward in the State Electricity Sectors, 2020

An Experience Sharing Workshop

24th & 25th September, 2020 | Virtual workshop



1. Introduction

Prayas (Energy Group) (PEG) organised the third edition of the two-day experience sharing workshop on 24th and 25th of September, 2020. Owing to the global Covid-19 pandemic and the lockdown enforced thereafter, the event was held virtually this year, on the Zoom meeting platform. The event was attended by around 59 participants working in the electricity sector, representing twelve states. This included participation from various stakeholders such as NGOs, grass-root organisations, policy think tanks, and consumer activists.

As has been the practice over the previous workshops, the event this year was also envisaged as a platform to discuss commonalities and differences, and share experiences, challenges, and strategies used in various states to engage with the power sector. It was understood from the experience over the past workshops that participants preferred more focused discussions on crucial topics, experienced across states. Given this and the constraints of a virtual event, the current year's workshop hosted in-depth discussions on the following topics:

- *Planning for a smooth transition of the distribution sector:* The ever-increasing losses of distribution companies (DISCOM) will worsen with the increasing cost of supply, sales migration of cross-subsidising consumers, and increase in domestic and agricultural demand. In light of this, it is crucial to discuss experiences, aspects, and proposed solutions to ensure a transition that addresses the financial woes of the DISCOM, the impact on small consumers, and efficient functioning of the distribution sector. This session was held on Day 1 of the workshop.
- *Experiences of regulatory and policy engagement:* Institutions such as the Regulatory Commissions, State Governments, Appellate Tribunal, the High courts, and the Supreme court face many operational challenges, especially with regard to their independence in decision making, capacity, and access to their services. Deliberations regarding the experiential challenges and successes of civil society organisations in engagements with such institutions is important to finetune the role of consumer participation and ensure transparency and accountability in their operations. This discussion was held on Day 2 of the workshop.

The workshop proceeded through short context setting presentations from lead discussants, followed by moderated, detailed discussions amongst the participants. The deliberations acknowledged several issues in the sector that were common across states in the country, had persisted over several years, and needed to be addressed through collaborative efforts. The impact of the Covid-19 pandemic on the power sector was also discussed. These are detailed in the following section of this report.

The agenda for the workshop and the list of participants is attached as Annexure I and II, respectively. Presentations, notes, and materials shared during the workshop are available at: <https://www.prayaspune.org/peg/publications/item/475>

2. Major Deliberations at the Workshop

This section of the report covers major points that were raised and discussed over the course of the two-day workshop.

2.1. Planning for a smooth transition of the distribution sector:

Discussion on the first day of the workshop was aimed at deliberating and planning for a smooth transition of the distribution sector. The following issues dominated the discussion:

2.1.1. Challenges in DISCOM finances and operations

Subsidies play a significant role in DISCOM finances across several states. Delays in subsidy payment from the state government to the DISCOMs cause a strain in daily functioning of the DISCOMs due to shortages in working capital which further pushes for reliance on high interest short term borrowings. DISCOMs are also saddled with the challenges of increasing average power purchase cost and arrears in consumer payment. In addition to this, insufficient and irregular revisions in tariffs contribute to the growing DISCOM financial losses.

Other than DISCOM finances, several common issues were faced across states. This included—power generation at low PLFs, seasonal and diurnal variations in supply, time-of-day tariffs, as well as issues with renewable energy generation. While some participants focused on catalysing state-level interventions, others emphasized the need for solutions at a national level. Towards this end, some proposed a cohesive policy that encompasses all of the power sector. There was consensus on the fact that the DISCOM's challenges are compounded by its role in ensuring profitability in generation and affordability for consumers. Therefore, there is a need to address the same at both the state and national level.

2.1.2. Sales Migration

Over the years, there has been rising sales migration to open access and captive sources. This has primarily been driven by the fall in renewable energy (RE) prices. In RE rich states such as Gujarat, Maharashtra and Rajasthan, open access accounts for about 20% of its HT sales. Participants discussed this factor and its linkages with subsidy payments as well as capacity addition planning.

Increased sales migration will affect the existent cross-subsidy based tariff model, as many commercial and industrial consumers will inevitably migrate towards open access. This will further increase the need for government subsidy as well as exaggerate the problems of delayed subsidy payments. In this context, transparency and accountability with respect to subsidy payments were further highlighted. Additionally, sales migration further necessitates proper demand assessment before adding new capacity.

2.1.3. Need for capacity addition planning

Since power purchase cost accounts for 75-80% of the DISCOM's expenses, rigorous planning of the power procurement process was emphasized by all. In several states, there is significant capacity in the pipeline, despite the lack of any sustained power deficits. Capacity additions approved on the basis of unrealistic and high expectations of demand growth on a long-term basis contributes to the stranded assets and idle high cost capacity within several states. While some capacity has been identified across states for retirement to address this, owing to vintage and adherence to environmental norms, there has also been significant capacity approved as replacement.

Many also felt that the capacity addition processes in the states are ad-hoc in nature and are driven by vested interests. There is an urgent need for decision making to be driven by analysis-based evidence and professional experience. Participants emphasized the need for demand forecasting, modelling and integrated resource planning, with periodic revisions.

The lack of adequate capacity addition planning has led to significant capacity being backed down across modes of ownership. For instance, Punjab's backed down stranded capacity is dominated by the Independent Power Producers (IPP), which was contracted on the basis of peak demand projections. But this was not the case across all states. In Maharashtra, for example, most of the backed down capacity belonged to the state generating company, followed by NTPC and then by IPP. Similarly, for Tamil Nadu, 70-80% of the backed down capacity came from the state generating company.

Despite the differences in the spread of stressed capacity across states, there was consensus on the need for capacity addition planning to address this issue. It was suggested that there should be a detailed public process for approval of power procurement, similar to the existent process for tariff approvals. This should include preparing draft plans, inviting comments from all stakeholders, and conducting public hearings. Alternatives such as modular additions or smaller capacity additions to multiple states were also suggested. However, it was pointed out that building capacity on the basis of potential for interstate trading of power would not be ideal, since most utilities already have surplus power.

2.1.4. Duration of power procurement contracts

In addition to the planning of capacity addition, the nature and duration of the power procurement contracts was also a point of discussion. Many states have surplus power and the dynamic nature of the power sector introduces uncertainties. Since most of the utilities' capacities are contracted for the long term, the DISCOMs continue to pay fixed costs even after they surrender capacity. To avoid such issues with future capacity addition, some participants suggested signing short-term or medium-term contracts. However, it was noted that short term PPAs are riskier, owing to which the associated cost of capital will rise and, thus, lead to a rise in consumer tariffs. Over and above the duration of the contracts, it was discussed that ensuring no

further base load capacity is contracted to address demand is crucial toward addressing the issues with capacity addition in states. Power procurement should be carried out based on realistic demand patterns, and not merely on the basis of peak or base load. This further highlights the need for regulatory action and attention specific to power procurement issues to ensure accountability and transparency of such contracts.

2.1.5. Issues with bailouts

Over the years, the power sector has witnessed periodic bailouts with increasing quantum. These bailouts did not succeed in significantly improving the financial health of DISCOMs. Participants underlined that under these bailout interventions, the financial burden was mainly borne by the state governments. Even under Ujjwal DISCOM Assurance Yojana (UDAY), the financial burden was borne by the state governments by taking over the debt of the DISCOMs.

Five years after UDAY, it seems that the government is contemplating another bailout. But as previous experience shows, despite repeated bailouts, certain challenges continue to persist. In this context, participants agreed that a paradigm shift was needed in the DISCOMs business model.

2.1.6. Power Sector and Covid-19

Participants also discussed the effects of the Covid-19 pandemic on the power sector. Due to the consequent lockdown, there was an average fall of 20% in energy demand. This fall was the largest among the commercial and industrial consumers, which further led to DISCOMs' loss in cross-subsidy revenue. Even among small consumers, there were issues of meter-reading, billing, and collection.

The central government, as well as the state governments, initiated several policies to aid the power sector. This included the deferred recovery of fixed charges and special dispensation to meet working capital requirement. Participants agreed that the effect of the pandemic added to the already significant challenges of the DISCOMs, but was clearly not the driver of their deep-rooted financial crises.

2.2. Experiences of regulatory and policy engagement

The second session of the experience sharing workshop hosted deliberations on the challenges and positive experiences of the participants in engaging with regulatory institutions within the power sector. The major topics that were discussed in this regard are as follows:

2.2.1. Independence of regulatory institutions

The interlinkages between regulatory function and politics and governance of a state were brought up by several participants. Independence of regulatory agencies is needed, and is linked to the effectiveness of state governance, as highlighted by the experience in states like Maharashtra and Andhra Pradesh. Some participants stated that given that electricity sector

decision making has long been influenced by vested political interests across the country, issues like technical efficiency and rational assessment of challenges are given less attention compared to schemes that attract political interest. Change in tariffs, whether an increase or decrease, must be consistent and devoid of government interference. Apart from this, it was agreed that there seems to be a marginalisation of professionals, particularly when it comes to policy making.

The interlinkages present in sector operations are also reflected in the appointment of Commission members who were previously in the employ of a state licensee. Participants mentioned that vested interests and lack of accountability of regulators often result in sidelining of data backed arguments presented by consumers. While addressing these complex issues of linkages between regulatory governance and politics needs further discussion and debate, they are matters which require urgent attention.

2.2.2. Sidelining of consumer interests in regulatory function

Consumer Grievance Redressal Fora (CGRF) provide consumers a platform to raise their concerns and complaints with the quality of supply and service provided by their respective DISCOMs, and thus, add accountability to DISCOM operations. Similarly, timely revisions of the state's Standards of Performance document and the Consumer Protection Rules help safeguard consumer interests. The recent provision of automatically compensating consumers on some parameters that can be monitored remotely, such as hours of outage, was also seen as a step in holding DISCOMs accountable for the quality of supply and service.

However, the issue of Electricity Regulatory Commissions not acting in the interest of the consumer was a shared experience across states. This was especially recognised with regard to the planning and roll out of power procurement in states. In states like Telangana and Andhra Pradesh, decisions regarding power purchase have not been sufficiently scrutinized and justified, which has and will result in conventional and non-conventional capacity addition that is not prudent or required. It was suggested that, given the role of power procurement, a mandate could be introduced for comprehensive resource planning. Additionally, a proposal for a regular resource planning process, separate from the tariff process, was discussed. There was consensus on the need for a dynamic and holistic planning process to address the challenge of power procurement in states.

In addition to this, owing to the aforementioned linkage of politics and regulation, it was mentioned that the Commissions in several states were selective in their treatment of matters and roll out of approvals, favoring the licensee. Enquiries on such matters by consumers are often met with silence. These challenges are only exacerbated by delays in regulatory processes, with hearings on pertinent issues, like approval of power purchase agreements and renewable power purchase obligations, being delayed by years. Such inefficiencies in procedure dilute the purpose and impact of the related orders. Further, consumers often have insufficient resources to sustain engagement with regulatory institutions on a matter stretched across several years owing to

delays and challenges in geographical and financial access to institutions such as the APTEL. Thus, cherry picking issues based on vested interests, unresponsive Commissions, and procedural delays, result in biased rulings and render the regulatory process futile.

2.2.3. Consumer representatives and public participation

Section 94(3) of the Electricity Act 2003 provides for the appointment of consumer representatives, to ensure public representation in all proceedings of the Commissions. However, it was understood that few state Commissions have acted on this. In fact, even in states, like Maharashtra, where appointment of such consumer representatives was carried out in the past, the practice has been recently discontinued. The role of consumer representatives has been limited to advisory committees and public consultations. In other states like Andhra Pradesh and Telangana, attempts to encourage civil society public participation in the regulatory process was met with limited success, which has resulted in significant damage to consumer interests. Even in states like Kerala where consumer associations are actively involved in regulatory hearings, only the concerns of institutional consumers are represented before the Commission.

Fixing tariffs is considered to be the chief function of the Commission. Given this and the aforementioned issues of access, participation, and longevity of cases in regulatory fora, consumer participation is essential towards ensuring the accountability of regulatory operations and safeguarding consumer interests.

2.2.4. Regulatory function in the times of COVID-19

The global pandemic and the response to it resulted in a disruption of the functions within the power sector, as it did across society. However, it was noted that the power sector in many states has stepped up to adapting to these changes and have introduced solutions to enable the roll out of their functions.

For instance, in several states, such as Andhra Pradesh and Uttar Pradesh, public hearings are being held on video conferencing platforms. This has proven to be an effective measure with all participants getting an opportunity to present their points, despite the occasional challenge owing to connectivity issues. While in other states, like Maharashtra, hearings via video conferencing have not been opened to the public, however, the Commission has resumed conducting hearings virtually with the concerned parties. In addition to this, the recently notified CGRF regulations for Maharashtra allow virtual hearings for CGRF processes as well.

Many state Commissions have also provided detailed instructions on how to engage and join such virtual hearings, on their websites. Another effective measure in this regard, as seen in some parts of Uttar Pradesh, is the creation of a platform at the level of the chief engineering officer, where people without access to resources can collect and engage in the hearing process. Such efforts to encourage public participation, and continue operations during a challenging time was acknowledged and appreciated.

3. Way Forward

The concluding session of the workshop served as an effective summarising of the discussions and debates that occurred across the two-day event. The role and responsibility of people who engage in these regulatory spaces was highlighted, and the need to raise awareness of such engagement was also discussed. Further, the importance of continuing analysis and ground level experience backed interventions in regulation was also recognised.

Given the nature of challenges and experiences faced by participants across states, it was felt that such state-level workshops and platforms like E-share were important and served to provide a broader perspective and shared understanding of power sector governance. It was suggested that documenting the best practices of CSOs in engagement with the power sector would help other organisations replicate the same in their respective states. Towards the end of ensuring continued dialogue exchange across states, a proposal to convene a meeting of State Advisory Committee members was discussed. Such a platform would be crucial in furthering pro-public measures in governance of state power sectors and encouraging public participation in regulatory process.

Everyone missed the experience of attending the workshop in a different city and the many informal interactions with other participants. But this virtual engagement proved fruitful as a platform to disseminate information and facilitate discussion within the power sector civil society network across states. It is hoped that the next such event would be held physically, in a new city, with more focused and action-oriented discussions among CSOs to address issues in the power sector.

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4. Annexure I: Agenda for the workshop

Trends and Way Forward in the State Electricity Sectors
Experience Sharing Workshop on 24th and 25th September, 2020
Organised by Prayas (Energy Group), Pune

Agenda

Day 1: 24th Sept, Thursday		
Time	Description	Moderator/Discussant
10:00-10:30	Welcome and introduction by participants	Moderators: Sreekumar N & Maria Chirayil
Session 1: Planning for a smooth transition of distribution sector		
10:30-11:20	Introductory presentations by discussants	Discussants: Manabika Mandal (Context setting) Baldev Singh Sran (Punjab experience) Thimma Reddy (Andhra Pradesh & Telangana experience)
11:20-13:00	Discussion	Moderator: Ann Josey
Day 2: 25th Sept, Friday		
Time	Description	Moderator/Discussant
Session 2: Experiences of regulatory and policy engagement		
10:00-10:50	Introductory presentations by discussants	Discussants: Ashok Pendse (Maharashtra & HC experience) Venugopala Rao (Andhra Pradesh & Telangana experience) Ramashanker Awasthi (Uttar Pradesh & ATE experience)
10:50-12:30	Discussion	Moderator: Manabika Mandal
12:30-13:00	Closing remarks	Moderator: Sreekumar N

5. Annexure II: List of Participants

	Participants	Organisation	State/City	Email
1	A Raja Rao	Formerly with BHEL	Karnataka	arajaroo[at]yahoo[dot]com
2	Ananda Mohapatra	Consumer activist	Odisha	anandamohapatra22[at]gmail[dot]com
3	Anoop Singh	Indian Institute of Technology- Kanpur	Kanpur	anoops[at]iitk[dot]ac[dot]in
4	Aprajita Salgotra	Indian Institute of Technology- Kanpur	Kanpur	aprajita[at]iitk[dot]ac[dot]in
5	Ashok Pendse	Consumer activist	Maharashtra	ashokpendse[at]gmail[dot]com
6	Ashwani Ashok	CEED	Delhi/Bihar	ashwani[at]ceedindia[dot]org
7	Ashwini K Swain	Centre for Policy Research	Delhi	ashwini[at]cprindia[dot]org
8	Baldev Singh Sran	Formerly with Punjab State Power Corporation Limited	Punjab	baldev[dot]chauke[at]gmail[dot]com
9	Bharat Sharma	Council on Energy, Environment and Water	Lucknow	bharat[dot]sharma[at]ceew[dot]in
10	D.P Chirania	Consumer activist	Rajasthan	dpchirania[at]hotmail[dot]com
11	Daljit Singh	Centre for Social and Economic Progress	Delhi	daljitss[at]gmail[dot]com
12	Dharm Deo Agarwal	Samta Power	Rajasthan	agarwaldd[at]yahoo[dot]com
13	Dheeraj Gupta	World Resources Institute	Bangalore	Dheeraj[dot]Gupta[at]wri[dot]org
14	Dhillon Subramaniam	World Resources Institute	Bangalore	Dhilon[dot]Subramanian[at]wri[dot]org
15	Dhruvak Aggarwal	Council on Energy, Environment and Water	Lucknow	dhruvak[dot]aggarwal[at]ceew[dot]in
16	DV Ramana	Xavier Institute of Management, Bhubaneswar	Bhubaneswar	professorramana[at]gmail[dot]com
17	Jeya Kumar R	Citizen Consumer and Civic Action Group	Tamil Nadu	jeyakumar[dot]raju[at]cag[dot]org[dot]in
18	Joe Athialy	Centre for Financial Accountability	Delhi	joe[at]cenfa[dot]org

19	Kanika Balani	Council on Energy, Environment and Water	Lucknow	kanika[dot]balani[at]ceew[dot]in
20	M Thimma Reddy	Peoples Monitoring Group on Electricity Regulation	Hyderabad	thimmanna_m[at]rediffmail[dot]com
21	M Venugopala Rao	Centre for Power Studies	Hyderabad	vrmmumreddi[at]gmail[dot]com
22	Manoj E	KSEB Officers Association	Kerala	manoj[dot]jedathikudy[at]gmail[dot]com
23	Martin Scherfler	Auroville Consulting	Tamil Nadu	martin[at]aurovilleconsulting[dot]com
24	Nandikesh Sivalingam	Center for Research on Energy and Clean Air	Bengaluru	nandikesh[at]energyandcleanair[dot]org
25	Parth Bhatia	Centre for Policy Research	Delhi	parth[dot]bhatia[at]cprindia[dot]org
26	Pavithra R.	Citizen Consumer and Civic Action Group	Tamil Nadu	pavithra[dot]ramesh[at]cag[dot]org[dot]in
27	Prabhakar BN	SWAPNAM	Vijayawada	prabhbn[at]yahoo[dot]com
28	Prabhakar Dora	Consumer activist	Odisha	doraprabhakar1965[at]gmail[dot]com
29	Prateek Aggarwal	Council on Energy, Environment and Water	Lucknow	prateek[dot]aggarwal[at]ceew[dot]in
30	Rajesh Kumar	Centre for Financial Accountability	Delhi	rajesh[at]cenfa[dot]org
31	Rajkiran Bilolikar	ASCI	Hyderabad	rajkiran[at]asci[dot]org[dot]in
32	Rajkumar Sinha	Bargi Bandh Visthapit Sangh	Madhya Pradesh	rajkumarbargi[at]gmail[dot]com
33	Rakesh Gupta	Punjab State Power Corporation Limited	Punjab	rakeshgupta60[at]hotmail[dot]com
34	Rama Shankar Awasthi	Energy Mantra	Uttar Pradesh	rsawasthi71[at]gmail[dot]com
35	Ramanaiah Setty D	SWAPNAM	Hyderabad	settyramanaiah69[at]gmail[dot]com
36	S. Gandhi	Power Engineers Society of Tamilnadu	Tamil Nadu	gandhibarathi[at]yahoo[dot]com

37	Sandhya Sundararagavan	World Resources Institute	Bangalore	sandhya[dot]ragavan[at]wri[dot]org
38	Sarada Das	Centre for Policy Research	Delhi	sarada[at]cprindia[dot]org
39	Sarthak Shukla	CUTS	Rajasthan	ssk[at]cuts[dot]org
40	Shalu Agrawal	Council on Energy, Environment and Water	Lucknow	shalu[dot]agrawal[at]ceew[dot]in
41	Shineraj P	KSEB Officers Association	Kerala	shinerajcet[at]gmail[dot]com
42	Swathi V	The Hindu	Hyderabad	swathi[dot]vsk[at]gmail[dot]com
43	Toine Von Magen	Auroville Consulting	Tamil Nadu	tvm[at]auroville[dot]org[dot]in
44	Udai Singh Mehta	CUTS	Rajasthan	usm[at]cuts[dot]org
45	Vivek Velankar	Sajag Nagrik Manch	Maharashtra	vkvelankar[at]gmail[dot]com
46	Yawanti Kumar Bolia	Samta Power	Rajasthan	ykbolia[at]gmail[dot]com
47	YG Muraleedharan	Karnataka Electricity Governance Network	Karnataka	ygmuralidharan[at]gmail[dot]com
48	Aditya Chunekar	Prayas (Energy Group)	Pune	aditya[at]prayaspune[dot]org
49	Aniruddha Ketkar			ani[at]prayaspune[dot]org
50	Ashok Sreenivas			ashok[at]prayaspune[dot]org
51	Kshitij Singh			kshitij[at]prayaspune[dot]org
52	Ann Josey			ann[at]prayaspune[dot]org
53	Kailas Kulkarni			pegadmin[at]prayaspune[dot]org
54	Manabika Mandal			manabika[at]prayaspune[dot]org
55	Maria Chirayil			maria[at]prayaspune[dot]org
56	Shantanu Dixit			shantanu[at]prayaspune[dot]org
57	Shilpa Kelkar			shilpa[at]prayaspune[dot]org
58	Shivani Kokate			shivani[at]prayaspune[dot]org
59	Sreekumar Nhalur			sreekumar[at]prayaspune[dot]org