

## 1. A gangrenous wound that could block India's Economic Recovery

### Context:

- ▶▶ A cyclical economic downturn exacerbated by continuing banking sector issues, a severe contraction in automobile sector demand, and, most recently, a seven-year low in industrial output appear to have jolted the government.
- ▶▶ Even as the government scrambles to respond to this slowdown, structural impediments to long-term growth have been festering. One area where the wounds threaten to turn gangrenous is in the power sector.

### India's Power Sector:

- ▶▶ Electricity is critical to fulfilling the growth aspirations of a developing economy. It fuels industry, agriculture, and, consequently, consumer demand. It is now the third-largest producer and consumer of power in the world. To mix some metaphors, with an **installed capacity of 350 gigawatts (GW)**, India is a global powerhouse.
- ▶▶ With an annual electricity production estimated at about 1,300 billion units, India's power generation has been growing at approximately 6-7% a year over the last 10 years, keeping pace with real gross domestic product (GDP) growth. Installed capacity has been growing faster than GDP at nearly 11% per annum over the last decade.
- ▶▶ India has diversified sources of power, with thermal coal/gas constituting 66%, nuclear 2%, Renewable 13%, and hydro power 19% of installed capacity. The renewable component is growing rapidly with both solar and wind expected to generate 175GW of power by 2022.

### Three Segments of Power Sector:

- ▶▶ The power sector in an economy is typically broken into three segments: Generation, transmission and distribution. These three segments and power trading are regulated in India under a consolidated and modernized Electricity Act of 2003.
- ▶▶ It is a landmark regulation that opened the way for the power sector to keep pace with a fast-growing economy by bringing competition to the generation and distribution segments.
- ▶▶ Generation was fully de-licensed and distribution by private companies was permitted under license for rural and urban areas. The Act of 2003 catalysed power generation in the country, including for captive power plants.

### Challenges Ahead:

- ▶▶ India has an overall surplus of power in terms of generation today. The real trouble is that this power is not available where and when it is needed.
- ▶▶ Geographically, the north and north-east of the country are short of power, particularly during peak periods. Jammu and Kashmir, for instance, has a 20% deficit both for normal and peak periods, and Uttar Pradesh is chronically short of power.
- ▶▶ The transmission and distribution segments are in much deeper trouble. Growth in transmission capacity and investment, particularly for inter-regional movement, has fallen short of the requirement.
- ▶▶ Distribution companies (discoms), most often owned by the states, **are deeply indebted to banks** and have also accumulated accounts payable to upstream companies.

### Government Intervention:

#### UDAY Scheme:

- ▶▶ The central government's Ujjwal Discom Assurance Yojana (UDAY) scheme has been a mixed success, with some relief of the debt burden borne by discoms.
- ▶▶ **UDAY Scheme was launched by Union Power Ministry for financial turnaround and revival package for state electricity distribution companies (DISCOMs).** It aimed to help to make discoms financially and operationally healthy so they can supply adequate power at affordable rates.
- ▶▶ Under it, **State Governments were to take over up to 75% of their respective discoms' debt by issuing sovereign bonds to pay back the lenders.** Remaining 25% of debt will be issued by discoms in the form of bonds.

#### One Nation One Grid:

- ▶▶ In a move to improve India's connectivity infrastructure, the government in its second term plans to build a model of **'One Nation, One Grid'** to ensure availability of power to states at 'affordable' rates.

#### Needed Reforms:

- ▶▶ The generation side requires reforms that encourage **Environmental Sustainability and a focus on the quality and Reliability of Electricity.** With the renewable share increasing, we need greater emphasis on balancing power sources to overcome the variability of renewable electricity supply.
- ▶▶ The transmission sector requires investment and the ability to get projects completed.

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- ▶▶ **The Distribution Sector needs Radical Reforms such that bad debts and accounts payable are dealt with “shock and awe” rather than in drips. Broken balance sheets cannot be fixed incrementally.**
  - ▶▶ Looking ahead, state electricity regulatory commissions that govern discoms **should be able to set and raise tariffs as Necessary.** Like with cooking gas, the smarter way to provide subsidies is by removing price interventions for agriculture and residential consumers, and making direct benefit transfers instead. This would eliminate distortionary pricing and level the playing field between sectors.

**Conclusion:**

- ▶▶ If these issues continue to fester, power will become a major impediment to India’s growth prospects. **According to a World Bank report, if distortions in the power sector are reduced, we could add up to 4% to our Annual Growth Rate.**

