

Standing Committee Report Summary

Review of Power Tariff Policy

- The Standing Committee on Energy (Chair: Mr. Rajiv Ranjan Singh) submitted its report on the 'Review of Power Tariff Policy-Need for uniformity across the Country' on August 2, 2022. Key observations and recommendations are:
- **Tariff rationalisation:** The Committee observed that having a uniform tariff across the country at present or in one go would be very difficult. It noted that cost of supply of electricity varies due to varying generation, transmission, and distribution costs. States have been empowered to decide the tariff for different categories of consumers. Many states have created a large number of tariff categories based on socio-economic considerations (as high as 93). The Committee noted that the current tariff structure is varied and complex, and there is a need to rationalise various key components of power tariff. It recommended the central government to work with states to simplify the tariff structure.
- **Power Purchase Agreements (PPAs):** Power procurement cost constitutes a major portion of the cost of supply for distribution companies (discoms). About 90% of the power demand is met through long-term bilateral contracts between generators and discoms, known as PPAs. The Committee observed that discoms have signed PPAs at a higher cost as compared to prevailing market prices. This has adverse implications on their financial performance. It recommended rationalising the cost of PPAs. However, it also observed that re-negotiation of PPAs, unless mutually decided by parties, is not desirable as it may send adverse signals for future investment.
- **Payment of fixed costs:** Discoms pay generators in two parts: (i) fixed charges, reflective of capital investments, and (ii) variable charges, including cost of fuel for generation. The Committee observed that capacity utilisation of coal and lignite-based plants in 2020-21 was about 53%. Discoms have to pay a big amount as fixed cost even when plants are not utilised. This cost has to be ultimately passed on to end consumers. However, fixed cost is not being recovered fully at the distribution tariff level. The Committee recommended the government to explore avenues to reduce this burden on discoms.
- **Power exchanges:** The Committee noted that power exchanges can help bringing in uniform tariff across the country. However, current power purchased through exchanges is less than 5% of the total electricity generated, as most of the demand is met through long-term PPAs. It recommended the central government to: (i) develop the power exchange system, (ii) ensure availability of multiple exchanges to avoid any monopolies, and (iii) formulate regulations to prevent malpractices.
- **Cross subsidy:** Cross-subsidy refers to tariff arrangement where one consumer category pays a comparatively higher tariff to subsidise consumption of another consumer category. The Tariff Policy requires that tariffs for all consumer categories be brought within $\pm 20\%$ of the average cost of supply to them. The Committee recommended restriction of cross subsidy within a band. Further, a system may be adopted where the base tariff is the average cost of supply for all categories and $\pm 20\%$ is applied for transparency in tariff determination. It also recommended direct benefit transfer of subsidy to consumers to make cross-subsidy more focused and effective.
- **Reduction of AT&C losses:** In 2018-19, the Aggregate Technical and Commercial losses (AT&C losses) were 22%. In some states, these losses were as high as 60%. AT&C losses account for the proportion of power supplied by a discom for which it did not receive any payment. The Committee observed that these losses are majorly commercial in nature, and can be reduced through administrative interventions. It further observed that if AT&C losses were reduced by half, discoms would have been financially viable.
- **Optimising energy mix:** The Committee noted that installed capacity from all sources is about 389 GW, whereas maximum demand has been around 170 gigawatt. Capacity utilisation of coal and lignite-based plant has come down to about 53%. The renewable energy including solar has a must run status, which requires discoms to surrender conventional power to accommodate renewables. However, due to intermittent nature of renewables, balancing power from other sources is required for grid stability. The Committee recommended forming an expert committee to examine pooling of power at the central level such that an ideal mix of energy and provision of electricity to all states at uniform rate may be ensured.

DISCLAIMER: This document is being furnished to you for your information. You may choose to reproduce or redistribute this report for non-commercial purposes in part or in full to any other person with due acknowledgement of PRS Legislative Research ("PRS"). The opinions expressed herein are entirely those of the author(s). PRS makes every effort to use reliable and comprehensive information, but PRS does not represent that the contents of the report are accurate or complete. PRS is an independent, not-for-profit group. This document has been prepared without regard to the objectives or opinions of those who may receive it.