

Towards electricity reforms 2.0

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Dispel the darkness Free up coal distribution PV SIVAKUMAR

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Make in India needs reliable power. To this end, access to coal should be thrown open to all thermal plants

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The Prime Minister had recently mentioned that consumers in Delhi will soon be able to change their power suppliers in the same way as today's mobile users change their SIM cards.

This might seem unrealistic to some, but a detailed understanding of the power sector indicates enablers that could make this dream possible. This dream is already a reality in Mumbai where residents have an option to choose between power suppliers — Tata Power and Reliance.

What are these enablers?

Spread of power distribution

The foundation for this dream was laid with the de-licensing of power generation which has led to unprecedented capacity addition and a situation of power surplus. But the power generation sector is under stress due to the slow pace of reforms in the coal sector (input), railways (logistics) and distribution sector (output).

Though the Electricity Act 2003 has levelled the monopoly of state owned generation companies, it has failed to pass any benefits in coal, railways and distribution. To date, these sectors are dominated by governmental entities. In order to attain a steady state in the power sector it's important to have a comprehensive approach while designing reforms. Segregating carriage (distribution network) from content (power supply) can open up the sector and disrupt the current state of monopoly operations, thereby leading to efficiency and competition.

Distribution of electricity could continue to be a regulated sector, while providing non-discriminatory network access. State owned discoms' status as monopolistic buyers of electricity should become redundant. End users will eventually replace the discoms as buyers.

The Electricity Amendment Bill, 2014 tabled in Parliament during December 2014 addresses this area of concern. The Bill proposes interstate power traders to be deemed as supply licensees. India is fundamentally ready for this move only because around 35 GW of capacity in the country is under different stages of implementation and without a PPA (power purchase agreement.).

Freeing up coal

The government has set an ambitious target of coal production of 1.6 billion tonnes by 2020 — one billion tonnes from CIL (Coal India Limited) and 0.6 billion tonnes from the private sector. This is a welcome step; however, restricting coal supply to plants with PPAs with state discoms and not providing coal linkages to plants with untied capacity is a step in the wrong direction.

Power plants without PPA have an access to only 15 per cent of coal supply from their own captive coal blocks and have to depend on unreliable supplies from e-auction coal and imported coal. Competitive bids for long term power purchase by discoms have dried up, creating an overwhelming supply of untied power capacity.

Ensuring coal for *all* thermal power plants is the key to establishing an electricity market based on the principles of market efficiency and optimum supply chain management.

Creating an adverse situation for untied power generation capacity contradicts the Prime Minister's vision of providing option to end users to choose their power suppliers. Ensuring a level playing field would fuel the next round of private investments.

Coal production is another monopoly that needs to be reformed. De-allocation of coal blocks and holding auctions based on end use plant is an attempt to alter the historical anomaly of arbitrary distribution of this scarce resource. The government's step towards auction of captive coal blocks is significant and cautious step towards ending the monopoly in the sector.

The introduction of commercial mining will help in attracting global mining giants and enable us to leverage their expertise and technology.

It will help set new efficiency benchmarks in the country and may potentially lead to a dramatic increase in output as India has the world's fifth largest coal reserves. CIL will not be impacted with the opening of the sector as it would enjoy a head start with a production about 700-900 million tonnes per annum by the time commercial miners commence operations.

India can become coal-surplus by 2020. 'Make in India' can only see the light of day if power supply is reliable and competitive.

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