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“Cross subsidy reduction can Open Access to opportunities”

Open Access, an issue, which has been discussed and deliberated in the circle of the power market in India time and again, has again come into conversation, with Prime Minister Manmohan Singh taking serious initiatives to make amendments into it. Very recently Singh had asked the Cabinet Committee on Economic Affairs to decide on allocation of a portion of power generated from Centrally-owned utilities for open access to large consumers.

As the amendments are in the offing, Energetica India, in its special section for Transmission and Distribution, talks with Amulya Charan, MD, Tata Power Trading Company Limited and Rupa Devi Singh, MD & CEO, Power Exchange India Limited in respect of defying of Open Access by some States, misinterpretation of the Electricity Act and future of the Power Market.

Prior to Electricity Act 2003, inefficiencies were there across the board, power shortage was one of the implications. To address

the irregularities, Government formed Electricity Act 2003. Has the implementation of the Electricity Act brought some changes in the power market?

AMULYA CHARAN: There is a definite change for better in the Power Market in India since enactment of EA 2003. While shortage of power continues, a whole new set of entrepreneurs have developed who see this as an opportunity. Several Captive Power Plants have started selling surplus power in the merchant power market. There is now a visible interest in investing in generation capacity to exploit the immediate potential in this market. A total of about 150,000 MW capacity addition plan has been announced by private sector. If a proper enabling environment continues for some time then Government can divert its resources from Generation to Transmission and Distribution Sectors.

RUPA DEVI SINGH: The Electricity Act 2003 has been a path-breaking legislation which touches all parts of the Electricity Market in India. With EA 2003 came the timeline for re-organization of SEBs, separation for transmission ownership and operations, delicensing of electricity generation and other initiatives. EA 2003 has definitely brought major changes in the power market.

However, there are multiple activities that still need to be done both by policymakers as well as Regulators to ensure the continued development of the power market in

the country. This would also help in the co-ordinated development of all sectors of the electricity value chain. These would, among others, include issues like the implementation of Open Access in its true sense, promoting efficiencies in the distribution sector, promoting private investment in generation.

It is however heartening to note that policy-makers and regulators are seized of such issues and various initiatives have been undertaken to resolve such issues, including the R-APDRP, development of UMPPs etc.

No doubt the Electricity Act was devised to supply equal electricity everywhere, but misinterpretation of some Sections of the Act by a few States prevented free flow of power across the country. Karnataka, Tamil Nadu, Andhra Pradesh and now Orissa tried their best to check the generated power in their states within the boundaries, taking undue advantage of Section 11 of the Act. Please throw light on the whole issue and suggest measures to be taken to check the practice.

AMULYA CHARAN: Several states have neglected the power sector for a long time resulting in hardly any creation of new generating capacity, high AT&C Losses, and inadequate consumer tariffs to be able to cover even the cash cost of supplies. The net result is that there are severe power shortages in these States and growing discontent against unending load shedding. Some of the States have found a short cut by forcing IPPs and CPPs within the state to sell their surplus power only to the State utilities by banning the sale of power outside the State. Such measures will further deter the private sector from investing in these states and thereby further increasing power shortages and load shedding.

Such acts are against the very spirit of the EA 2003 to create a vibrant power market across the country. Governments of India, CEA and CERC have to step in and give a clear message to these States that such actions on their part are not acceptable. If a large number of States start following in the footsteps of these States then integrated operation of the power grid across the country will be jeopardized and States with shortage of power will not be able to access power

from the surplus States.

RUPA DEVI SINGH: Section 11 of the Electricity act has been invoked in some States to limit open access for the sale of power outside the State.

The basic premise of the Electricity Act 2003 has been to open up the power sector to bring in transparency, efficiency, accountability and to ultimately create a market and provide consumer choice using non discriminatory open access.

While such action has been rationalized because of the general election and other socio-political environment within the States, such issues are expected to have an adverse impact in the development of the power market in the country.

However, this issue has been raised in various forums and appropriate action is being taken through the Regulatory as well as judicial framework of the country.

While southern states took shelter of Section 11, Maharashtra made monkey business of Section 108 and Rajasthan manipulated sayings of Section 37. Is the statement true?

AMULYA CHARAN: States with severe power shortages are trying to find out the ways and means of blocking export of power from their State boundary – what ever the means. This is not going to give them any long term relief. If at all, this is only going to worsen the power situation in their State – Center Govt. and private sector will start avoiding investments there.

It is purely incidental the Southern States have used Section 11 and others have used different sections for blocking power from flowing out of the States. Orissa in the Eastern Region has also used Section 11.

Has flouting the Act adversely affected the power trading business?

AMULYA CHARAN: Power Trading as an organised business in India is the creation of EA 2003. Flouting of the provisions of this Act will adversely affect Power Trading in India. Such actions by the States have already adversely affected Trading business by frustrating the existing valid contracts.

RUPA DEVI SINGH: The stand taken by various States are their interpretation of the Electric-

ity Act 2003. Additionally, we must realize that Electricity continues to be governed by policy at both Central and State levels.

However, some of these issues have already been addressed by the CERC and while we believe that the Electricity Act 2003 has been developed with the basic premise of promoting competition and developing a vibrant power market, yet the socio-economic realities of the States cannot be completely overlooked.

Therefore, it is essential that inclusive development is achieved, where competition and efficiency is promoted along with ensuring appropriate benefits to the common man.

The PM appointed committee on Open Access in the power sector will soon finalise its suggestions and make it compulsory for power generators to sell 3% of their total capacities through the open access system. Will it be a boom for power trading?

AMULYA CHARAN: Please note that the 'Committee on Open Access in the Power Sector' has recommended that out of the 15% unallocated share of Central Power PSU's Capacity, 3% be released for sale in the Merchant Power Market. This will increase available power for trading and will help these Central Power PSUs earn higher return due to prevailing high prices.

RUPA DEVI SINGH: While such action would without doubt prove beneficial for the growth of power trading provided that the following pre-requisites are ensured.

- Open access,
- Independent system operator,
- Regulated wheeling charges and reduction of cross-subsidy charges
- Appropriate settlement mechanism for energy transactions
- Adequate transmission and Distribution capacity and reduction in congestion on inter-regional links

What is your take on the provisions suggested in Open Access Regulation 2009?

AMULYA CHARAN: Proof of the pudding is on eating. If these are implemented in the letter and spirit then these will help in creating a vibrant power market in the country.

RUPA DEVI SINGH: Regulations have been modified to include transactions discovered at power exchange as bilateral transactions. It facilitates power exchanges to run bilateral transactions for longer tenure periods in addition to the day-ahead market. This is expected to cater to the ever-increasing demand of utilities for certainty in supply.

Henceforth the SLDCs are responsible for availability of transmission capacity and metering infrastructure. Will this rule keep check on SLDCs?

AMULYA CHARAN: The main issue is independence of SLDC from incumbent Utilities (SEBs/ State owned Discoms). Their role is well defined and has been further clarified by CERC. Let us now wait and watch when SLDCs start functioning as per these regulations.

RUPA DEVI SINGH: The independence of Load Despatch Centres is a necessary condition for the health of the power market. While requiring SLDCs to do the functions as mentioned are necessary, they may not be sufficient for ensuring their independence.

The following mechanisms may also be required for the same.

- SLDC should be ring-fenced from all generation, transmission and distribution utilities of the State.
- Introduction of a system of certification of system operators by an independent body.
- To lay down standard operating procedures which would be adopted by the SLDCs.

Should the cross subsidy be reduced?

AMULYA CHARAN: Cross subsidy is supposed to take care of the lost revenue of the incumbent Discom when they loose Open Access Customers to competition. At the time of enactment of EA 2003 it was envisaged that this will be brought down to zero in five years time which was later brought down to 20% of the initial amount.

As a matter of fact there is no case for this cross subsidy as all the Discoms are woefully short of power. If one customer moves out then the power so saved is immediately sold to other available customers who are waiting on the wings. There is, therefore,

no case for cross subsidy. Still in most of the cases high cross subsidy charges is applicable making it difficult for the eligible customer to exercise his choice of supplier thus defeating the very purpose of creating this provision.

RUPA DEVI SINGH: Prima-facie the cross subsidy as being charged by distribution companies appear to be a constraint towards development of a competitive power market. Shift from completely regulated and state run distribution company based scenario to Open Access practices is a major change. To bring this change it is important to implement them in steps, in that sense phasing out of cross subsidy over a planned timeframe in line with the guidelines of the NEP and NTP is desired.

In case the government agrees to reduce it what would be its impact on power trading?

AMULYA CHARAN: If cross subsidy charges are reduced then eligible customers will get to choice to choose supply sources.

RUPA DEVI SINGH: Reduction and subsequent elimination of cross subsidy would bring the power market a step closer to competitive market. As witnessed earlier in other competitive markets, when buyers and sellers are free to decide on their source of

buying and selling, efficiency comes into the system resulting in market determined prices and further efficiency gains.

The CERC is planning to introduce a scheme that will enable states to buy renewable energy produced and fed into grid by other states. Will the regulation give a boost to the trading market?

AMULYA CHARAN: This will certainly improve the availability of renewable energy and consequently increase trading volumes.

RUPA DEVI SINGH: Any new business segment brings in opportunities for buyers and sellers to manage the risks of their portfolios or their transactions in a more efficient manner. Traders help in identifying the best mechanism for managing such risk. Initiatives in the area of renewable energy would be no different.

However, the mechanism for trade of such renewable energy is yet to be completely formalized and therefore it may be premature to comment on the same.

In present time, what is the size of the market for power generated through renewable and what kind of expansion do you envisage by 2015?

AMULYA CHARAN: Renewable energy generators are by and large able to sell all the power generated by them. With significant incentives being given by Centre and State Governments, a lot of renewable generation capacity is coming up. Most of it will be able to find takers within or outside the states provided cost of generation is reasonable. At present the country has about 14000 MW of renewable energy base. It may be conservatively estimated to grow at the rate of 4 to 5 per cent per annum. Favorably policy framework would certainly accelerate the pace.

RUPA DEVI SINGH: As per our estimates, Renewables based power generation capacity of India is around 13500 MW. Given the present focus of MNRE, MoP, CERC etc. and entry of MNCs in the generation field, we expect investments in this sector would increase substantially.

However, there are some issues which need to be appropriately resolved, including policy issues like tax-breaks on investment, development of renewable energy certificates, technical issues like scheduling of wind power and economic issues like cost of power from renewable sources etc., such that renewables can be developed at par with "conventional" forms of generation. If India acts quickly on these issues, the renewable sector in India should see a major expansion.

Open - Access in Distribution: An Important Step towards a Competitive Power Market

Allowing open-access in the distribution segment and ensuring options for the end users are key strategies to develop a competitive power market in India said CII in a press statement

Inter-state open access on transmission has been successfully operationalized in India; however, there is an urgent need to operationalize open-access distribution at intra-state level. High Aggregate Technical and Commercial (AT&C) losses and unpreparedness of utility companies have been a constraint for intra-state open-access implementation. Distorted tariff structure has been a limiting factor in the ability of the utility to invest in distribution networks.

Increasing efficiency would reduce AT&C losses thereby controlling the operating costs and keeping the additional power purchase costs low. Also, developing an appropriate tariff structure would facilitate open-access in distribution.

"After the telecommunication and civil aviation sector, it is now time to unshackle the power sector. The purpose of an open-access would be truly achieved, when every end-user

has the option to choose their service provider" said Chandrajit Banerjee, Director General, CII. Free and fair open-access once achieved would also attract a large number of investors in the power sector. This is extremely important as India is already lagging in its power capacity addition target.

CII opined that inducing competition at the distribution level is in the best interest of both consumer and industry.

"Expeditious creation of metering and SCADA infrastructure in the States is a necessity to operationalize open-access. Regulatory bodies would need to issue facilitating regulations to govern the open-access market" said Mr. R. S. Sharma, Chairman CII National Committee on Power and Chairman & Managing Director NTPC.

CII also welcomed the proposal of Planning Commission to make it mandatory for power generators to sell off about 5% of their power capacities through an open-access system. The industry body said that this would help create power market and improve the commercial attractiveness of the entire sector. (CII)