Tariff Rationalisation

Key considerations for a simpler, more transparent and efficient price structure

India's current consumer tariff structure is a highly complex one, characterised by numerous categories and tariff slabs across various states. Further, there is inconsistency in the categorisation of certain consumer segments across states. With a view to simplifying electricity tariffs, the power ministry recently constituted a committee for developing a framework for the creation of tariff categories that enable uniform and homogeneous electricity tariff categorisation across the country. Sector experts share their views on how the tariff structure can be rationalised and the key considerations in doing so...

What, according to you, should be the key considerations of regulators while rationalising the tariff structure?

Pramod Deo

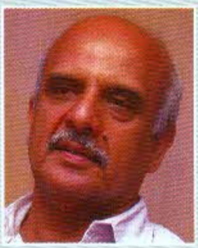
The first thing is that the Ministry of Power (MoP) should not believe that it can run the state discoms remotely from Delhi. In real life, tariffs are a state subject and the regulators will be guided by what the political powers in the states want them to do. Also, the situation on the ground varies from state to state. For example, in Chhattisgarh, we have a separate tariff category for mining; however, such a category may not be relevant in other states. Another issue is that supply to agriculture is not metered. Even though a metering system has been introduced for agriculture, in many states it is not effective and as a result, there is a very large percentage of consumers that are not metered at all.

Another issue relates to high tension consumers, that is, consumers with consumption of 1 MW and above, who are the real revenue generators. A common template for industries and commercial users may be possible across the states. But within one category, like hospitals, there are different types of consumers – government, municipal and private. Since government and municipal hospitals cater to socially and economically disadvantaged patients, their tariffs are kept low. However, for private hospitals that are run on a commercial basis, there cannot be lower tariffs. We have come across many private hospitals registered as charitable trusts and demanding lower rates. In real life, they cater to only affluent patients and the quotas for poor patients are never met. Thus, it is important to have separate tariffs even in the "same" category.

While rationalising the tariff structure is an attractive idea, we will have to live with the reality that each state follows a tariff structure that is more conveniently suited for its social objectives. No doubt state regulators need to periodically undertake the exercise to reduce the number of categories, as having too many categories creates its own problems. It is well to remember that when rationalising, there will always be political and economic considerations, resulting in the introduction of new categories or redefining older ones.

Sabyasachi Majumdar

The central government is in discussion with the state governments to rationalise the tariff structure for distribution utilities by reducing the number of tariff categories. This proposal was also discussed at the state power ministers' conference in May 2017. This is in view of the complex tariff structure across the states with multiple categories and subcategories and a high level of cross-subsidisation by industrial and commercial consumers. While rationalising the tariff structure, the state electricity regulatory commissions (SERCs) should take into consideration the cost structure of the utilities including their fixed cost obligation, payment capabilities of various consumer categories and competition from open access power sellers. The SERCs should also provide a roadmap to reduce cross-subsidies with the objective of keeping



Pramod Deo
Former Chairman, Central Electricity Regulatory Commission

Sabyasachi Majumdar
Senior Vice-President, ICRA Limited

Rajesh Mokashi
Managing Director and Chief Executive Officer, CARE

Dr S.L. Rao
Former Chairman, Central Electricity Regulatory Commission

Arun Srivastava
Principal Executive Adviser, Advocacy, Tata Power Company Limited

Nitin Zamre
Managing Director, ICF India

tariffs across categories within 80 per cent to 120 per cent of the average cost of supply (ACS) of a distribution utility.

Rajesh Mokashi

The Economic Survey 2015-16 had suggested simplification of power tariffs with no more than two to three tariff categories, which would improve transparency and collection efficiency along with governance benefits. As per the survey, the current tariff structure in most of the power distribution companies is complex with myriad rates/categories for different types of consumer classes. Further, the complexity may prevent consumers from fully responding to tariffs due to the high cost of processing the price information. The resolution on tariff rationalisation was also adopted at the union and states power minsters' conference in October 2016, with most of the states agreeing to the idea of having uniform tariff categories of electricity consumers.

Against this backdrop, the importance of this issue cannot be less emphasised. Over the years, the regulators have been moving towards a rationalisation of the tariff structure. In our view, the considerations for regulators while rationalising the tariff structure should be four-pronged: the tariff should aim at the recovery of prudent cost; subsidy to the needy should be well targeted and allocated; the tariff should progressively reflect the ACS; and there should be a simplification of tariffs and slab structures.

Tariff structuring should also aim at addressing areas like smoothening the demand curve (through time-of-day [ToD] metering) and putting in place a framework of penalties for erring consumers, with incentives for law-abiding/punctual consumers.

Dr S.L. Rao

Unfortunately, electricity is a concurrent subject in our Constitution. Consumers, therefore, come under the state governments and their regulators. This has made a heavy capital essential service into a highly uneconomic one, with no

> "While rationalising the tariff structure is an attractive idea, we will have to live with the reality that each state follows a tariff structure that is more conveniently suited for its social objectives."
>
> Pramod Deo

surplus generated for regular maintenance and investment. Electricity was in short supply and ensuring that the marginalised people got it regularly was an unsuccessful effort. We now have a situation where there is plenty of electricity and more is to come. This is the time to make price lists more sensible. In a sensible market, prices are related to volume. We have been going in the opposite direction, charging more for higher consumption and less (or even free) for the smallest consumers. This must change.

We must ensure that all supply is metered. If a particular consumer or group or industry is to be favoured and supplied free or below-cost electricity, we must identify each such consumer and know how much electricity is to be supplied at those lower rates (or free), and the government must reimburse the discom without delay. The discom must not be asked to cross-subsidise one consumer or group by charging more from the larger consumer. This requires complicated accounting and is not the business of the discom.

We must have tariffs that vary with time

> "Tariff rationalisation would bring in greater transparency for consumers and provide better control on operations for distribution utilities."
>
> Sabyasachi Majumdar

of day and night as well as season. The discom can then maximise sales and this will lead to maximum use of generation capacity and gains due to better efficiencies. Tariffs could also be varied over distance so that the cost of supplying to distant consumers does not have to be subsidised by closer ones. There could also be a discount for steady and large purchases made consistently.

Arun Srivastava

World over, including in India, the regulator is expected to take a neutral position, balancing the interests of all stakeholders. While doing so, it must also ensure sectoral development and business viability. The Electricity Act, 2003 also clearly outlines the role of the regulators – to stabilise, guide and nurture the sector comprehensively. Tariff setting is one of the key responsibilities of the regulator and that is an important tool to ensure business viability, stakeholder protection and well-being and also for sending out the right signals for the future. Such signals are essential triggers for new technological shifts and investment requirements, besides preparing consumers for changed service standards/conditions and the likely associated costs. In a country like India, where momentous changes are taking place in the sector, in terms of service provisions and costs as well as the technological shifts, the role of the regulator assumes greater importance. It would be the prime responsibility of the regulator to prepare the sector, mainly consumers, for embracing the expected changes, be it on account of rolling out of smart grids and smart meters, increasing penetration of renewable technologies, net metering and energy storage solutions, substitution of fossil and petroleum fuels in transportation or domestic cooking by electricity.

The key considerations for tariff rationalisation could include:

- A realistic assessment of costs of service to various consumer categories at different voltage levels of supply and setting cost-reflective retail tariffs.
- Elimination of cross-subsidy as well as