

## SEMINAR ON “COMPETITION REFORMS IN INDIAN ELECTRICITY SECTOR”

Friday, January 31, 2014, Chennai

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### MEETING MINUTES

#### BACKGROUND

CUTS Centre for Competition, Investment & Economic Regulation (CUTS CCIER) along with Madras School of Economics and Nathan Economics Consulting India Pvt. Ltd. had organised this seminar in Chennai, as a part of CUTS project initiative, National Competition Policy & Economic Growth in India (ComPEG project), supported by British High Commission. The purpose of this project is to take forward the agenda of adoption of the draft National Competition Policy.

#### OBJECTIVE

The seminar focused on the broader issues pertaining to the adoption and implementation of National Competition Policy in India, keeping sectoral competition reforms at periphery. The seminar featured subject experts, academicians, media, business houses and others to deliberate on the need for adoption of National Competition Policy for India.

#### OPENING SESSION

**Vijay Lakhanpal, Executive Director, Nathan Economic Consulting India** welcomed the gathering and emphasised on the importance of competition reforms in the electricity sector. He informed that in electricity sector competition process started way back in 1991, with the amendment in Electricity Act 2003.

In his introductory remark, **Udai S Mehta, Associate Director, CUTS** highlighted the purpose of the project to take forward the agenda of a National Competition Policy and mentioned the three sector studies undertaken by CUTS under this project, i.e., Electricity, Pharmaceutical and Agriculture Product & Marketing Committee. The studies identified the existing gaps against the touchstone of competition and measure the benefits of correcting the same on the entire Indian economy.

**Vidhya Soundararajan, Senior Advisor, British Deputy High Commission** in her address stated that, as part of the UK’s global network, the British High Commission works to build prosperity by increasing trade, opening markets, ensuring access to resources, and promoting sustainable growth. An open global economy is the most effective way to support development and increased global prosperity.

**K R Shanmugam, Director and Professor, Madras School of Economics** emphasised on the benefits of competition to the consumers. Competition in electricity sector will facilitate reforms and consumers will also get more choices. The whole purpose of 1991 amendments was to encourage competition in the electricity sector by unbundle the sector, so that competition can be encouraged in each division of the sector. However, contrary to this most of the utilities are making losses, especially in Tamil Nadu.

S Nagalsamy, Member, Tamil Nadu Electricity Regulatory Commission (TNERC) informed about several facts, figures and current scenario of TNERC. He explained that the purpose of 1991 amendments was to encourage competition and decide the tariff without the intervention of government. However, without a perfect market it is difficult to implement competition and bring efficiency.

### **PRESENTATION AND PANEL DISCUSSION ON 'COMPETITION REFORMS IN THE INDIAN ELECTRICITY SECTOR'**

**Sangeeta Singh**, Principal Economist, Nathan Economic Consulting India delivered a presentation on competition reforms in electricity sector, which was followed by the panel discussion on the subject. The research paper as prepared by Nathan starts out by how the electricity sector has opened up in line with India's liberalisation process, how certain acts and regulations have helped a wider private participation. A literature review of how recent years have seen a decline in the scope of regulatory regime across countries and how major industries have become a part of market discipline and delivered significant benefits to consumers in terms of choice, competitive rates and satisfaction from their use has been done. Development of the electricity sector in the developed world and its transition to the market economy including that in Europe, France, Germany, North America, Canada, Australia, China, Japan, Russia has also been covered in the study.

Singh mentioned that they have analysed the potential qualitative benefits to be realised from the incorporation of competition principles in various relevant policies concerning this sector as well as the practices involved in implementing these policies; analysis of the impact of regulation on competition in the electricity sector, especially the private players and consumers. The natural monopoly argument in the electricity sector has been discussed and suggestion for deregulation for the same has been suggested. As part of the study, she mentioned that they have undertaken a competition impact assessment of the electricity power supply chain process, i.e. competition investigation across the generation, transmission and distribution segments of electricity.

They have so far concluded that unbundling of state electricity boards, open access: retail trade of electricity are some of the practices that have the potential to vastly improve the financial health and state of function of the sector. Key problems, such as subsidisation, tariff setting and non-revision have also been deduced as major challenges facing the progress of the electricity sector.

**Ketan Shukla, Former Secretary, Gujarat Electricity Regulatory Commission (GERC)** informed that Gujarat has become a role model for the country by taking bold steps across the entire energy value chain right from business process to generation, transmission and distribution. There are many PPAs have been signed by the utilities and as a watch dog GERC remains vigilant of the requirement at the time of agreement. Similarly, tariff rationalisation has been on the regulator's agenda by keeping in view two main issues, i.e., no economic burden on utilities and protecting the interest of consumers.

**Ann Josey, Research Associate, Prayas Pune,** emphasised that competition cannot be implemented without proper governance mechanism. She brought the point that competition is not all about privatisation; even public sector can be made competitive. The states which have implemented the unbundling are also not doing well, so there is a need of good governance instead of further unbundling.

**S Saroja, Citizen Consumer and Civic Action Group** advocated on behalf of consumers that from the consumer perspective Tamil Nadu electricity sector continues to remain a monopoly, till today. In 2010, unbundling was implemented in Tamil Nadu that too with great reluctance. She also suggested that generation and distribution, which are presently under one umbrella, should be further unbundled in order to encourage competition. Government should allow entry for private players at all levels. It will ultimately encourage healthy competition and will be beneficial to end consumers, as they will have a choice and quality power at affordable price.

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