

Tariff Rationalisation in Rajasthan

Background & Rationale

The policy and regulatory landscape of the Indian power sector are undergoing a rapid transformation. Along with an aggressive policy mandate for adopting clean energy, there is a definitive push for ushering structural and policy reforms from various stakeholders.

The rationalisation of electricity tariffs is a key reform agenda for this transformation. The political economy of the power sector has dictated the evolution of a complex tariff regime, creating structural inefficiencies and impacting the sustainability of distribution utilities. Academic and social research has established disproportionate allocation of subsidies, increasing subsidy burden on the state governments, inhibiting energy conservation, insufficient willingness to pay by poor consumers, and misalignment between power procurement costs and electricity sales revenue.

COVID 19 pandemic has pushed many distribution companies (Discoms) into a financial crisis, and these in Rajasthan are amongst the worst distribution utilities. Further, failure to meet targets under the UDAY Scheme and burden on the State Government to carry the losses of approximately 75,000 crores has limited its borrowing capacity and resources to finance economic recovery and development activities.

Economic recovery and safeguarding the pandemic hit poor households is an essential mandate for the State Government. Simultaneously, the implementation of Rights of Electricity Consumer (Rules) 2020 notified by Ministry of Power is likely to push distribution utilities to improve performance on the supply side – a precarious situation unless utilities improve their profitability. The current scenario has created a sense of urgency for reforms amongst regulatory authority, administration and the State Government.

Objectives

The overarching objective is to simplify, structure and rationalise tariffs for delivering an efficient and inclusive electricity supply in Rajasthan.

Methodology

An evidence-based mixed-method approach will be adopted for the study. The following steps detail out the methodology.

Desk Research

This will involve an extensive literature review for computing potential tariff strategies. The research will be carried out stagewise as follows.

- I. The policy and regulation on electricity tariffs, historical data for power procurement and sales, the evolution of tariff regimes, and subsidy distribution will be analysed. After this, a survey of 400-500 samples will be conducted, including consumers from domestic, agriculture and non-domestic categories and different regions, to understand consumption patterns, income profiles, willingness to pay, energy and income linkages, etc.
- II. The potential for energy efficiency amongst non-domestic, mixed load and industrial consumer categories through strategic case studies (10 cases) will be evaluated.

- III. Mapping of potential for Automated Demand Response (ADR) participation will be done in selected power-intensive industries through empirical data and consultation with stakeholders.
- IV. Reviewing case studies and meeting with stakeholders will be done to map the competitiveness of electricity tariffs for short, medium-term and long-term open access electricity consumers.

Modelling Strategies

Tariff strategies at different stages of research will be developed, which are as follows.

- I. Domestic category consumers
- II. Tariff rationalisation enabling energy efficiency across consumer categories
- III. Enable ADR in targeted industries
- IV. Competitive tariffs

Stakeholders' Consultation

Consultations and consensus-building among relevant stakeholders will take place for tariff rationalisation for targeted subsidies and transparency framework.

Awareness Generation

Two workshops with key officials will be conducted to discuss tariff rationalisation strategies, viability and impact. A workshop will also be organised with key Civil Society Organisations and Consumer Advocates to build awareness about tariff rationalisation strategies and benefits.

Expected Outputs

Following outputs in the form of reports, research paper, guidebook etc. will be prepared.

- Eight reports including the strategies designed at different stages, the finding of research and case studies evaluated for the project

- A Research paper on 'Correlations between Energy Efficiency and Tariff Regime: A case of Residential Consumers'
- A Policy Brief on Tariff rationalisation recommendations for Residential and Agriculture Consumers categories
- Four Event reports on the workshops organised, indicating the list of key officials engaged, details of participants and feedback analysis
- A Guidebook for tariff reforms and transparency framework

Expected Outcomes

Long-term

The overarching outcomes of the project will be to lessen cash flow uncertainties for distribution utilities, reduce transmission & distribution losses, improve willingness to pay amongst low-income categories, optimise capacity expansion, improve the sustainability of distribution utilities and enable low carbon markets category-wise through tariff tweaks and incentives.

Interim Outcomes

The interim outcomes include enhancing awareness about inefficiencies of prevailing electricity tariff regime, increasing governance intent to implement tariff rationalisation Rajasthan, and generating public awareness about inefficiencies of prevailing tariff regime and strategies for tariff rationalisation.

Project Duration

The project duration is of one year, i.e., from February 2021-2022.

