

Electricity Acts

Salient features of the Electricity Act, 2003

- Rural Electrification
- Generation
- Transmission
- Role of Government
- Distribution
- Consumer Protection
- Trading / Market Development
- Regulatory Commission / Appellate Tribunal
- Tariff Principles
- CEA
- Measures against Theft of electricity
- Restructuring of SEBs

Role of Government

- Central Government to prepare National Electricity Policy and Tariff Policy.(Section 3)
- Central Govt. to notify a National Policy for rural areas permitting stand alone systems based on renewal and Non-Conventional energy sources in consultation with States. (Section 4)
- Central Government to formulate a National Policy in consultation with the concerned State. for bulk purchase of power and management of local distribution through Users' Association, Cooperatives, Franchisees and Panchayat Institutions etc. (Section 5)

Rural Electrification

- Appropriate Government to endeavor to extend supply of electricity to all villages/hamlets. (Section 6)
- No requirement of licence if a person intends to generate and distribute power in rural area. (Section 14)

Generation

- Generation free from licensing. (Section 7)
- Requirement of TEC for non-hydro generation done away with.
- Captive Generation is free from controls. Open access to Captive generating plants subject to availability of transmission facility.
- Clearance for hydro projects required. Necessary due to concern of dam safety and inter-State issues.
- Generation from Non-Conventional Sources / Co-generation to be promoted. Minimum percentage of purchase of power from renewable may be prescribed by Regulatory Commissions.

Transmission

- There would be Transmission Utility at the Centre and in the States to undertake planning & development of transmission system.
- Load dispatch to be in the hands of a government company/organisation. Flexibility regarding keeping Transmission Utility and load dispatch together or separating them. Load Dispatch function critical for grid stability and neutrality as compare to generators and distributors. Instructions to be binding on both.
- Transmission companies to be licensed by the Appropriate Commission after giving due consideration to the views of the Transmission Utility.
- The Load Dispatch Centre/Transmission Utility / Transmission Licensee not to trade in power. Facilitating genuine competition between generators
- Open access to the transmission lines to be provided to distribution licensees, generating companies.
- This would generate competitive pressures and lead to gradual cost reduction.

Distribution

- Distribution to be licensed by SERCs (**Supercomputer Education and Research Centre**).
- Distribution licensee free to take up generation & Generating co. free to take up distribution licence. This would facilitate private sector participation without Government guarantee/ Escrow.
- Retail tariff to be determined by the Regulatory Commission.
- Metering made mandatory.
- Provision for suspension/revocation of licence by Regulatory Commission as it is an essential service which can not be allowed to collapse.
- Open access in distribution to be allowed by SERC in phases.
- In addition to the wheeling charges provision for surcharge if open access is allowed before elimination of cross subsidies, to take care of
- Current level of cross subsidy
- Licensee's obligation to supply.
- This would give choice to customer.

Consumer Protection

- Consumer to be given connection within stipulated time.
- Penalty in the event of failure to give connection
- Payment of interest on security deposit.
- Regulatory commission to specify Electricity supply code to be followed by licensees.
- No sum due from consumers recoverable after a period of two years unless the same was shown recoverable continuously.
- Redresses forum for redresses of grievances of consumers, to be appointed by every distribution licensee within six months. Ombudsman scheme
- Standards of performance.
- Licensees required to meet standards of performance specified by Regulatory Commission. Failure to meet standards makes them liable to pay compensation to affected person within ninety days.
- Licensee to furnish to the Commission periodical information on standards of performance (Section 57)

Trading/ Market Development

- Trading distinct activity permitted with licensing.
- Regulatory Commission may fix ceiling on trading margin to avoid artificial price volatility.
- The Regulatory Commission to promote development of market including trading.

Regulatory Commissions/Appellate Tribunal

- State Electricity Regulatory Commission to be constituted within six months.
- Provision for Joint Commission by more than one State/UT.
- Provision for constitution of Appellate Tribunal consisting of Chairman and three Members.
- Appellate Tribunal to hear appeals against the orders of CERC/SERC, and also to exercise general supervision and control over the Central/State Commissions.
- Appeal against the orders of Appellate Tribunal to lie before the Supreme Court.
- Appellate Tribunal considered necessary to-
 - Reduce litigation and delay in decisions through High Court.
 - Provide technical expertise in decision on appeals.

Central Electricity Authority

- CEA to continue as the main technical Advisor of the Govt. of India/ State Government with the responsibility of overall planning.
- CEA to specify the technical standards for electrical plants and electrical lines.
- CEA to be technical adviser to CERC as well as SERCs.
- CEA to specify the safety standards.

Tariff Principles

- Regulatory Commission to determine tariff for supply of electricity by generating co. on long/medium term contracts.
- No tariff fixation by regulatory commission if tariff is determined through competitive bidding or where consumers, on being allowed open access enter into agreement with generators/traders.
- Consumer tariff should progressively reduce cross subsidies and move towards actual cost of supply.
- State Government may provide subsidy in advance through the budget for specified target groups if it requires the tariff to be lower than that determined by the Regulatory Commission.
- Regulatory Commissions may undertake regulation including determination of multi-year tariff principles, which rewards efficiency and is based on commercial principles.
- Regulatory Commission to look at the costs of generation, transmission and distribution separately.

Measures Against Theft of Electricity

- Focus on revenue realization rather than criminal proceedings.
- Penalties linked to the connected load and quantum of energy and financial gain involved in theft.
- Provisions for compounding of offences.
- Assessment of electricity charges for unauthorized use of electricity by the assessing officer designated by the State Government.
- Theft punishable with imprisonment.
- Punishment provision for abetment of theft.
- Special Courts

Restructuring of SEBs

- Provision for transfer scheme to create one or more companies from SEB.
- Provision for continuance of SEBs
- States given flexibility to adopt reform model/path.

New Central Law as compared with State Reform / Amendment Laws

- All licenses, authorizations, permissions, approvals, clearances issued under the repealed laws are saved for a maximum period of one year.
- Action taken under corresponding provisions of the repealed laws or rules made there under are saved to the extent of consistency/correspondence with the provisions of the new Act.
- Provisions of State Reform laws not inconsistent with provisions of the new Central law will continue to apply in that State.
- State Governments can defer implementation of the new Act by a maximum period of six months.

National Electricity Policy, 2005

The National Electricity Policy (NEP), 2005 aims to achieve accelerated development of the power sector, supply of electricity to all, and protection of interests of consumers and other stakeholders. It has tried to address the issues pertaining to availability of energy resources, technologies for using those resources, economics of generation using different resources, and the country's energy security. The salient objectives of the policy are as follows:

- Access to electricity for all households in next five years
- Power demand to be fully met by 2012
- Energy and peaking shortages to be overcome and spinning reserve to be made available

- Supply of reliable and quality power of specified standards in an efficient manner and at reasonable rates
- Per capita availability of electricity to be increased to over 1,000 units by 2012
- Minimum lifeline consumption of 1 unit/household/day by year 2012
- Financial turnaround and commercial viability of the electricity sector
- Protection of consumers' interests

The policy requires the state governments to prepare a five-year plan with annual milestones to bring down AT&C losses. It also aims to facilitate investment in distribution by ensuring adequate returns for utilities.

National Electricity Policy, 2005

In January 2006, the Government of India notified the National Tariff Policy, 2006, which aims to ensure the following:

- Financial viability of the power sector

- Attract investments
- Availability of electricity to consumers at reasonable rates
- Transparency and consistency in regulatory approach to tariff determination

The regulatory commissions are guided by the Tariff Policy, which stipulates that procurement of future requirement of power is to be done through competitive bidding. A two-part tariff structure is to be followed for awarding all long-term contracts to facilitate merit order despatch. Furthermore, power purchase agreements (PPA) are required to ensure adequate and bankable payment security mechanism to mitigate the risk of default.

Integrated Energy Policy, 2006

The broad vision behind the Integrated Energy Policy is to meet the energy demand of all, including the lifeline energy needs of vulnerable households. The emphasis is on safe and convenient energy at the least cost in a technically efficient, economically viable and environmentally sustainable manner.

National Action Plan on Climate Change

In 2008, India announced its first National Action Plan on Climate Change (NAPCC) outlining existing and future policies and programmes to address climate change mitigation and adaptation. The plan includes the National Solar Mission, National Mission for Enhanced Energy Efficiency, National Mission on Sustainable Habitat, National Water Mission, National Mission for Sustaining the Himalayan Ecosystem, National Mission for a “Green India”, National Mission for Sustainable Agriculture and National Mission on Strategic Knowledge for Climate Change.

Industrial Policy for Renewable Energy

The Government of India is promoting medium, small, mini and micro enterprises for manufacturing and servicing of various types of renewable energy systems and devices. The industrial policy measures include the following:

- Exemption from industrial clearance for setting up renewable energy units.
- Exemption from CEA clearance for power generation projects of up to US\$ 238.1 million.
- Five-year tax holiday for renewable energy power generation projects.
- Soft loan made available through IREDA for renewable energy equipment manufacturing.

- Facilities for promotion of export-oriented units for renewable energy industry.
- Financial support extended to renewable energy units for taking up R&D projects in association with technology institutions.
- Permission to private sector companies to operate as distribution licensees or generating entities.
- Custom duty concession given for renewable energy parts and equipment, including for machinery required for renovation and modernisation of power plants. Excise duty on a number of capital goods and instruments in the renewable energy sector has been reduced or exempted.
- Excise duty reduction or exemption on a number of capital goods and instruments used in the renewable energy sector.

The Mega Power Policy

Under the Mega Power Policy, projects of more than 500 MW (and 350 MW in special category states) with inter-regional power transmission capabilities qualify to receive financial incentives. Under the policy, a qualifying project can avail of financial concessions such as zero customs duty on import of capital equipment and deemed export benefits under the Foreign Trade Policy and income tax holiday under Section 80-IA of the Income Tax Act. Tax holidays are available to such projects for 10 years within 15 years of commissioning. States can also provide exemptions on local taxes and duties. Projects in the public sector get 15 per cent price preference.

The Ultra Mega Policy

The government has launched an initiative for developing 4,000 MW coal-based ultra mega power projects (UMPPs). The objective behind this initiative is to obtain cheaper tariffs using economies of scale and mitigate the risks related to acquisition of land, fuel, water and statutory clearances. These projects are awarded to developers on the basis of tariff-based competitive bidding. Project-specific shell companies (SPVs) have been set up as wholly-owned subsidiaries of Power Finance Corporation Limited to tie up necessary inputs such as land, captive mining blocks for fuel and water, and to facilitate in-principle environment and forest clearances. Each SPV is transferred to the selected developer along with the clearances obtained and resources secured. So far, nine sites have been identified by CEA for the proposed UMPPs. These include four pit-head sites, each, in Madhya Pradesh, Jharkhand, Orissa and Chhattisgarh, and five coastal sites, each in Gujarat, Andhra Pradesh, Tamil Nadu, Maharashtra and Karnataka. Some states are keen to have additional UMPP sites.

The New Hydro Policy, 2008

A new hydro policy was approved by the Union Cabinet in January 2008. The key features of the policy are as follows:

- Both the public sector and the private sector developers can be allocated projects without having to go through the tariff based competitive bidding route. The tariff would be decided by the appropriate regulatory commission.

- The developers have been allowed merchant sales of up to 40 per cent of the saleable energy. This allows them the flexibility of diversifying revenue realisations instead of being bound by fixed PPAs.
- The policy allows 12 per cent free power to the local state government and an additional 1 per cent for a local area development fund that would provide a regular source of income to build replacement infrastructure for the displaced people and to fund welfare schemes for them.
- For the families affected by projects, the policy provides for 100 units of free electricity per month for a period of 10 years. In addition, the policy stipulates that at every project site, an industrial training institute would be set up six months before the beginning of the project work to train the affected people to undertake skilled and semi-skilled jobs on project.

- **The 50,000 MW Hydroelectric Power Initiative**

- The Central Government launched a 50,000 MW hydropower initiative in May 2003. It was felt that an ideal hydro-thermal mix in the ratio of 40:60 is necessary for building flexibility in power system operations to suit varying load patterns during a year. Both base-load and peak-load requirements can be sufficiently met with such a mix while maintaining the grid stability.

- The Electricity Act, 2003, requires hydropower developers to obtain approval from CEA, which in turn is required to assess whether a proposed project's river works could jeopardize the prospects of the best development of the river or its tributaries for power generation while being consistent with the requirements of drinking water, irrigation, navigation, flood-control or other public purposes. CEA must

- make this assessment in consultation with the central and the concerned state governments.

- Under this initiative, a pre-feasibility report (PFR) is completed by CEA before a project is offered to a developer. PFRs have been prepared for 162 projects with a cumulative capacity of 34,020 MW and now detailed project reports (DPR) are under preparation. The projects are located in Andhra Pradesh, Arunachal Pradesh, Chhattisgarh, Himachal Pradesh, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Sikkim and Uttaranchal.

Open Access and Power Trading

Open access is a key feature of the Electricity Act, 2003. Open access to transmission and distribution on payment of charges to utilities enables a variety of licensees to use spare capacities to transmit power from generation points to load centres. Power trading through the open access system allows freedom to buy and sell electricity. This has also helped develop power exchanges in the country.

End of Presentation

Thank You