ELECTRICITY REGULATORY COMMISSIONS AND PUBLIC BENEFITS

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Electricity Regulatory Commissions (ERCs) have been set up as an integral part of the reform of the State Electricity Boards (SEBs) in several states. Reports of the work of the ERCs indicate that they are completely immersed in tariff revisions, complaint procedures, etc. These "nuts and bolts" issues are extremely important because "The devil is in the details!" Unfortunately, the agendas of ERCs are excluding the "big picture", the larger perspective and the fundamental ***raison d'être*** of ERCs. The Chairmen of the Central ERC confirms this blinkered perspective of the ERCs. In this context of self-emasculation, it is important to sketch the perspective within which ERCs must play their role.

The electricity sector in the now fast-vanishing command-and-control framework had several features -- government/bureaucrat domination over the sector, administered prices based on historical/average costs, subsidies to politically powerful consumer categories, cross-subsidies, unacceptably high technical and commercial losses, low efficiencies of generation and utilisation, capital scarcity, etc. These features were held responsible for the financial bankruptcy and poor technical performance of the SEBs. And the solution that was prescribed by the World Bank and its agents was corporatization so that the SEBs in their new incarnations would be liberated from government control and run on corporate principles. Marketization became the goal so that the SEBs are driven by market forces rather than the dictates of bureaucrats. Markets -- it is believed -- will lead to competition and thence to both commercial and technical efficiency.

But, can the power sector (or for that matter, water, roads, ports and all other infrastructural services) be left completely to the market along with a complete withdrawal of the state? The fact is that markets have limits. In general, with their preoccupation with the bottom line of balance sheets, they have grave shortcomings. They do not safeguard equity and distributional justice. They are not bothered about the environment (unless environmental externalities are internalised). They are unconcerned about the strengthening of self-reliance and the empowerment of people and their communities. And they pay no heed to the long-term particularly energy research and development. In short, markets do not protect ***public benefits***.

In the case of the power sector, however much market-driven efficiency may lead to profit maximisation at the firm-level for the successor of the SEB, the balanced development of the whole sector is likely to be neglected. A profit-oriented electricity body would also not have any incentive to connect and serve un-connected consumers unless the resulting revenues justified the additional investment. The focus of this body would be on servicing customers yielding profits. The protection of the environment through an emphasis on end-use efficient devices and renewable sources would also be sidelined. The empowerment of consumers would receive no emphasis. And long-term R & D would get scant attention.

It is because of these limitations of the market and the virtual certainty of public benefits being neglected that regulation becomes imperative. Thus, corporatisation/marketisation and regulation are two sides of the coin (of reform). If there were corporatization and marketization without regulation, public benefits would be stranded and jettisoned. Already evidence is pouring in from "successfully" reformed utilities in developing and industrialised countries that equity programmes, end-use efficiency measures, renewables sources and energy research and development are shrinking.

But, regulation via ERCs is only a necessary condition; it will not become sufficient unless the ERCs accept the protection of public benefits as a crucial part of their mandate.

Unfortunately, this issue of public benefits appears to have been completely forgotten amidst all the hype in India about power sector reform. One can understand the World Bank and its agents (consultants, grantee-institutions, etc.) throwing out public benefits along with state control -- after all, these benefits reek of subsidies and interference with the free play of the market. But what one cannot understand are governments manned by elected representatives of the people ignoring the unconnected poor who have been bypassed by the electricity sector and neglecting the environment and the long-term. And one cannot excuse political parties selectively championing the interests of the electrically connected consumers and ignoring the unconnected poor. If one were paranoid, one would even suspect an anti-poor conspiracy of silence on the question of public benefits.

The time has come to demand that, to advance broad goals prescribed by governments, the ERCs make the safeguarding of public benefits a crucial part of their mandate, in addition to the immediate problems of utilities such as tariff revisions, complaint procedures, etc. The interests of already connected consumers are necessary but they are not sufficient. The ERCs must also be concerned with the interests of potential but yet unconnected consumers. Electrified villages do not mean electrified households and roughly half the rural households are unelectrified. Just because the unconnected are not organised, they must not be excluded from the list of stakeholders. Inspired by the goal of ***electricity for all households***, the ERCs must impose an ***obligation to serve*** on the distribution entities. This obligation must not be restricted to grid extension; it could include decentralised generation and efficiency improvements as options. Another set of stakeholders not represented today in interaction sessions is future generations, the inheritors of the environment protected/degraded by current practices. It is well known that end-use efficiency improvements and/or renewable sources are powerful ways of protecting the environment by delivering greater energy services for less energy consumption. The ERCs must put in place mechanisms for promoting end-use efficiency improvements and/or renewable sources. ERCs can play such an enabling role only if carry out or promote Integrated Resource Planning or Least-cost Electricity Planning looking at both (centralised and decentralised) supply expansion and demand management options. The ERCs must be concerned therefore with the interests of the environment. And finally, the ERCs must ensure that R & D programmes that are

not attractive enough from a short-term bottom-line point of view will be undertaken in the interests of the future.

Despite the fact that programmes to protect these public benefits have a convincing logic of their own, they may be dismissed on the grounds that they are too far ahead of the times. What is little publicised in India is the fact that there are a variety of on-going programmes under implementation in the industrialised countries precisely to ensure that market-driven utilities do not do away with measures that benefit the public but do not generally produce profits (such as low-income assistance, energy efficiency and conservation schemes and investment in renewable sources, and energy research and development).

UK has the Non-Fossil Fuel Obligation (NFFO) according to which a levy is imposed on fossil-fuel based power generation and the funds thus collected are used to promote renewable sources of energy. The NFFO plans to bring into operation a base-load of 1,500 MW of renewable sources by 2000.

Several states of the US have the Renewables Portfolio Standards (RPS) to ensure that a minimum quantity of renewable sources is included in the energy portfolio of generators. Each retail supplier of electricity must provide a minimum percentage of renewable energy in its portfolio either through its own renewable energy facilities to obtain Renewable Energy Credits (RECs) or purchasing these RECs from other sources.

There is also the Public Benefits Charge (PBC) according to which the US Federal Government plans to collect $3 billion per year through a generation or transmission interconnection fee on all electricity at the rate of 1/10 of one US cent (1 mill) per kilowatt-hour. This public benefit charge (PBC) will provide matching funds to states for low-income assistance, energy efficiency programs, consumer education and the development and demonstration of emerging technologies, particularly renewables.

Of these various models, the Public Benefits Charge is the most attractive to be emulated in India by the government for the financing of programmes to benefit the poor and/or unconnected, end-use efficiency and renewables programmes and R&D for the power sector. The ERCs must champion the cause of public benefits.

Filename: ercs082000.doc 1,335 words 20 August 2000