Chapter 8
Consumer Power Subsidies: Brewing Crisis in India’s Economy

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ABSTRACT

Energy pricing in India usually hinges on political, economic or social considerations of the government. Consumer power tariff, a State subject in the country, is no exception to that. However, continued subsidising of power has led to mounting losses of discoms, mostly State-owned, sometimes to a level of insolvency. This has taken a serious toll on financial stability of distribution sector, triggering a cross-sector domino effect. This has happened in spite of regulatory oversight. This study has brought forth some compelling analyses which affirm that current crisis is the outcome of vested interests of some actors and apathy of the administration. It is seen that power tariffs have been skewed disregarding tariff guidelines, whereby liabilities of the State governments to compensate the discoms through payment of subsidies are limited. This study uncovers effective consumer power subsidy across the States, and offers insights into the consequences. This study also identifies key issues plaguing the sector, followed by a brainstorming on possible corrective action-points.

INTRODUCTION: ELECTRICITY PRICING AND SUBSIDY – A LINGERING ISSUE

Energy pricing in domestic market is a subject that usually hinges on political, economic or social considerations of the governments, especially in developing countries, and hence, naturally attaches the interests of different stakeholders. Often the governments in such countries exert their discretion to regulate domestic prices of energy commodities and resort to artificially reducing their end-user prices, commonly known as energy subsidizing. The purpose of such practice may vary from realizing certain social or economic objectives to gaining political mileage. However, this comes at a substantial cost. Apart from bringing distortion in the market, this kind of government intervention can incur revenue losses to the retailers or service providers who are mostly state-owned, or to the country’s exchequer.

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In the last decade or so, the issue of fuel subsidies in developing countries has come to the fore in policy-related discourse across different platforms including intergovernmental meetings, thinktanks, ministerial committees, etc. India features prominently as an economy footing one of the biggest oil subsidy bills in the world (oil subsidy, also known as under-recovery in India amounted to INR 1,61,029 crores in 2012-13 (Ministry of Petroleum & Natural Gas, 2014), i.e. around US$ 30.13 billion). Quite naturally, the issue of oil subsidies in India has drawn lot of national as well as international attention. It ought to be noted that the competent authorities in the country have initiated steps in containing or phasing out subsidies to oil products. For example, the price of gasoline has been decontrolled since June 2010. This is followed by deregulation of diesel pricing in October 2014 and initiation of direct cash transfer to households’ bank accounts in case of LPG subsidy. However, a particular issue which till date has remained thorny and largely unresolved is the concern of power subsidy in India. According to the latest available report published by the Power Finance Corporation (PFC), a Government of India undertaking, on the performance of State power utilities, the aggregate losses of the utilities in financial year (FY) 2012-13 were INR 1,05,070 crores (i.e. ~ US$ 19.66 billion) (PFC, 2015). This is a jump of about 40% over 2010-11 level and 63% increase with respect to 2009-10 (PFC, 2013). The spiraling losses of the utilities have their origin in the existing form of consumer electricity subsidies as highlighted in this study. This apart, subsidizing power de-incentivizes efforts towards improving demand-side energy efficiency. Wasteful power consumption in residential sector encouraged by subsidized electricity tends to push up peak demand which in turn aggravates peak power shortage. During 2007-08 and 2014-15, the annual unmet peak demand in India ranged between 4.5% to 16.6%, while peak demand recorded a compound annual growth rate of about 4.5% with a high base-level (108,866 MW in 2007-08). On the other hand, free or very low priced electricity in agricultural sector has done no good to improve pump efficiency in irrigation; currently the average efficiency of irrigation pumps in use is reported to be 20% to 35% whereas efficient pumps available in the market at higher costs can offer efficiency of up to 50% (Saini, 2011). In spite of the aforesaid implications and more, the administration and the political class prefer to circumvent the issue of electricity subsidy, possibly because of involvement of different stakeholders’ interests. In view of the troubled state of affairs of the country’s power distribution sector, it is imperative to examine the status quo.

**Political Economy**

India having population more than a billion (as per Census 2011) faces a variety of socio-economic challenges. Access to affordable electricity across the social strata is one such challenge. Though per capita electricity consumption in the country has witnessed a rise of 168% over the last two decades to reach 883 kWh in 2011-12 (CEA, 2013), it is still far below the global average consumption level of 2892 kWh/capita (CEA, 2013). It is worthwhile to mention that per capita electricity consumption is considered to have a strong linkage with Human Development Index; the latter is often regarded as standard yardstick to measure human development in a country. Thus, access to affordable electricity is central to the government’s policy-making with regard to electricity distribution. This has its reflection in the National Electricity Policy (2005) of the Government of India (Ministry of Power, 2005) which set affordable electricity for every household in the country with minimum per capita availability over 1000 units (kWh) as one of the key objectives. On the other hand, owing to the dependence of majority of the
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