

COMMENTS ON DRAFT NATIONAL ELECTRICITY POLICY 2021

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(Comments are made in our personal capacity and are not institutional positions)

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Big Picture

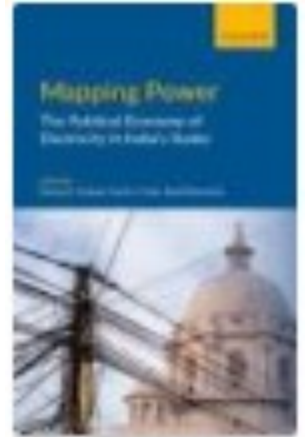
- NEP: An overdue update, but a welcome step
- Electricity at a critical juncture: Three Big Challenges
 - *Transition to 21st century electricity – Inevitable if slow energy transition from coal to RE*
 - *Chronic 20th century electricity challenges – discom hangover*
 - *Electricity as key to an economic transformation – Aatmanirbhar Bharat, jobs, public finance*
- Is NEP 2021 consistent with the scale of the three big challenges?
 - *Why these objectives, and based on what diagnosis?*
 - *How will these 15 priorities lead to the objectives?*
- Cross cutting issues
 - *Financing*
 - *Human Resource capacity and skills*
 - *Data availability, credibility and transparency*

Big Challenge 1: Shift from Coal to RE

- Ripple effects (big waves?) of the shift from big coal to RE
 - *Investment pattern – potential to de-link from big capital*
 - *Regional implications for job creation*
 - *Public finances affected as both centre and state lose revenue*
- Impact of electricity transition in interlinked sectors
 - *Rise of EVs and broader integration of electricity and transport*
 - *Green building impact on demand and building and appliance integration*
 - *Electrification of industrial process*
- Are RE capacity targets the right instrument? (450 GW RE by 2030)
 - *Is the objective capacity or generation?*
 - *Capacity targets may introduce rigidities, especially at scales like 450GW*
 - *What are the trade-offs with jobs and manufacturing (China and South Africa examples)?*
- Trade-offs with alternative pathways: centralised vs decentralised RE
 - *Are we missing benefits of decentralised RE by over-focusing on centralised?*
 - *Who will benefit from cost reductions of lower-cost RE?*

Big Challenge 2: Discom Hangover

- Financial, service quality and trust/credibility hangovers
 - *Centre-led interventions have had limited success – one size does not fit all*
 - *Reliance on bail-out band-aids*
 - *Incentive structure has not changed*
 - *Mounting discom debt, affecting upstream entities and broader economy*
- Time for a state-led approach? (Mapping Power)
 - *New state-led and reform-linked result-based scheme is the right direction*
 - *More autonomy to states, more accountability*
- Productive Power – Address means to pay
 - *Facilitate income generating usage of electricity in rural areas*
 - *Shift away from consumption subsidy to one time productivity enhancing investment support for the poorest*
 - *Decentralised RE promotion for the poorest*



Big Challenge 3: Electricity and Economic Transformation

- Multiple objectives of electricity policymaking
 - *Jobs, competitiveness, livelihood creation, public finance, local environment, global environment...*
- Electricity as if jobs mattered
 - *RE incentive structures that go beyond capacity addition*
- Toward an industrial policy approach
 - *Technology and innovation, supply chains, raw materials and minerals, low-cost financing,*
 - *Regional distributive issues*

Linking objectives and intervention areas

Areas	Energy Transition	Discom Reform	Economic Transformation
Optimal generation mix			
Transmission			
Distribution			
Grid operation			
Power markets			
Regulatory process			
R&D and adoption of new technologies			
Power quality			
Energy conservation & energy efficiency			
Environmental issues			
Skill building & HR development			
Coordinated development			
Creation of EV charging infra			
Make in India & Atmanirbhar Bharat			
Disaster risk reduction			
VISION FOR THE FUTURE	?	?	?

Area 1 – Generation: Misplaced Priorities

- Draft NEP suggests:
 - *New coal-based generation capacity may still be required*
 - *Coal as cheapest source*

- Facts:
 - *Huge coal capacity glut (NPA, low PLF) & pipeline projects*
 - *Slow demand growth*
 - *RE + balancing costs competitive with new coal plants*

- Our suggestions:
 - *No new coal capacity addition; at least a mid-term embargo*
 - *Institutional process to explore accelerated retirement of inefficient and polluting coal plants*
 - *Consider demand side measures as low hanging balancing options*
 - *Guidance on acceleration of DRE promotion*

Area 3 – Distribution: How to Revitalise

- Draft NEP emphasises:
 - *Technology-centric interventions (smart meters, feeder separation, etc.)*
 - *Privatisation/micro-privatisation and retail competition*
 - *DBT for subsidy disbursement*

- Facts:
 - *Technology interventions have to be combined with an approach to shift incentives and politics*
 - *Private ownership is not a silver bullet; incentives are key*
 - *Retail competition: global track record is uneven; unclear if benefits are worth the costs*
 - *On ground complexities with DBT; identification of beneficiaries & credibility of the method*

- Our suggestions:
 - *Productive power: Enhance consumers ability (and willingness) to pay*
 - *Promote income generating usage of electricity in rural areas*
 - *Switch from consumption subsidy to infrastructure subventions: Support the poorest to install DRE*
 - *State specific reform approaches - technology can be an enabler, less a driver*

Area 6 – Regulation: Regulatory Process for 21st Century Electricity

- Draft NEP emphasises:
 - *Light touch regulation*
 - *Focus on emerging challenges like market monitoring and surveillance, demand response, balancing and ensuring resource adequacy.*

- Facts:
 - *ERCs are operating under severe capacity constraints*
 - *Politically aligned appointments leads to strong political influence in regulatory process*
 - *Public participation as a tool for regulatory scrutiny has remained symbolic/checkbox*
 - *21st century electricity system would require less (light touch) regulation, but greater role for regulators*

- Our suggestions:
 - *Need to build technical capacity of ERCs: in-house expertise, designated point persons*
 - *A regulatory cadre?*
 - *Strengthen the process of public participation*
 - *Revitalise Advisory Committee engagement*

Area 12 - Coordinated Development

- Draft NEP emphasises:
 - *Uniformity in the policies promoted by the Centre and states*
 - *Role of Coordination Forum, Advisory Committee & FoR*

- Facts:
 - *Mapping Power:*
 - *Varied political economy of electricity in Indian states necessitates state-specific approach*
 - *Uniform approach to reforms resulted in varied outcomes in the states, even perverse results*
 - *Improve Centre-state communication – existing structures tend to be one-way*
 - *Guidelines on the new reform-linked result-based distribution scheme are in right direction, but tend to be menu-like*
 - *Existing forums for coordination has weak influence on policy process*

- Our suggestions:
 - *A robust institutional structure for centre-state coordination on electricity policy & interventions*
 - *Seek an agreement on shared goals, but states should be allowed to chart their path*
 - *Provisions for regular stocktaking, course correction and greater accountability from states*
 - *Central assistance tailored to state fiscal capacity and potential to achieve the goals*

Conclusions

- NEP at a historic moment in electricity sector
- Take on the bigger challenges, and link specific policy areas to a vision for those challenges
- Start building systematic links between electricity decision making and broader economic, financial and sectoral decision making