

National Electricity Policy

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Under the provisions of section 3(1) of the Electricity Act, 2003, the Central Government is required to prepare the National Electricity Policy for development of the power system based on optimal utilization of resources. The Policy has been evolved after extensive consultations with the States, other stake holders, the Central Electricity Authority and after considering the advice of the Central Electricity Regulatory Commission.

The National Electricity Policy is one of the key instruments for providing policy guidance to the Electricity Regulatory Commissions in discharge of their functions and to the Central Electricity Authority for preparation of the National Electricity Plan. The Policy aims at accelerated development of the power sector, providing supply of electricity to all areas and protecting interests of consumers and other stakeholders keeping in view availability of energy resources, technology available to exploit these resources, economics of generation using different resources, and energy security issues. Salient features of the policy are given in Annexure.

Objectives of the Policy

- a) Access to Electricity Available for all households in next five years.
- b) Availability of Power Demand to be fully met by 2012. Energy and peaking shortages to be overcome and spinning reserve to be available.
- c) Supply of Reliable and Quality Power of specified standards in an efficient manner and at reasonable rates.
- d) Per capita availability of electricity to be increased to over 1000 units by 2012.
- e) Minimum lifeline consumption of 1 unit/household/day as a merit good by year 2012.
- f) Financial Turnaround and Commercial Viability of Electricity Sector.
- g) Protection of consumers interests.

Main thrust Areas

The National Electricity Policy lays down the approach for developing Rural Electrification distribution backbone and village electrification to achieve the target of completing household electrification in next five years as envisaged in the National Common Minimum Programme. The policy also envisages financial support in terms of capital subsidy to States for rural electrification and special preference to Dalit Bastis, Tribal Areas and other weaker sections for rural electrification.

It seeks full development of hydro potential. Choice of fuel for thermal generation is

to be based on economics of generation and supply of electricity. Exploitation of non-conventional energy sources such as small hydro, solar, biomass and wind for additional power generation capacity is also envisaged. Development of National Grid is an important feature of the Policy.

The Policy recognizes the need for ensuring recovery of cost of service from consumers to make the power sector sustainable. The existing cross-subsidies for other categories of consumers need to be reduced progressively and gradually.

The policy recognizes that a minimum level of support is required to make the electricity affordable for consumers of very poor category. Consumers below poverty line who consume below a specified level, say 30 units per month may receive special support in terms of tariff which are cross-subsidized. Efforts would be made to ensure that the subsidies reach the targeted beneficiaries in the most transparent and efficient way.

The National Electricity Policy lays special emphasis on time bound reduction of transmission and distribution losses and advocates promotion of competition aimed at consumer benefits.

The policy estimates that to meet the objective of rapid economic growth and power for all including household electrification, an investment of the order of Rs.9,00,000 crores would be required to finance generation, transmission, sub-transmission, distribution and rural electrification projects upto the year 2012. Public sector investments, both at the Central Government and State Governments, will have to be stepped up and a sizeable part of the investments will need to be brought in from the private sector. Public service obligations like increasing access to electricity to rural households and small and marginal farmers have highest priority over public finances.

Private sector has various options for investments. To attract adequate private investments in power sector, return on investment will need to be provided at par with, if not preference to, investment opportunities in other sectors. Appropriate balance will be maintained between the interest of the consumers and the needs for investment.

Open access in transmission will promote competition and in turn lead to availability of cheaper power. The policy emphasizes that the Regulatory Commissions need to provide facilitative framework for non-discriminatory open access at the earliest including technological upgradation of the State Load Dispatch Centres by June 2006 to ensure data acquisition capability on a real time basis.

Open access to distribution networks, initially for bulk consumers, would increase the availability of cheaper and reliable power supply. State Regulatory Commissions have been mandated to notify regulations by June 2005 for laying down the road map for introducing open access in distribution. It has also been envisaged that the amount of cross-subsidy surcharge and additional surcharge to be levied from consumers who are permitted open access should not become so onerous that it eliminates competition.

The Policy stipulates that Regulatory Commissions should regulate utilities based on

pre-determined indices on quality of power supply. Parameters should include frequency and duration of interruption, voltage parameters, harmonics, transformer failure rates, waiting time

for restoration of supply, percentage defective meters and waiting list of new connections. The Commissions would specify expected standards of performance.

The policy emphasizes that the Central Government, State Governments and Electricity Regulatory Commissions will facilitate capacity building of consumer groups and their effective representation before the Regulatory Commissions. This will enhance the efficacy of regulatory process.

Other features

The policy also emphasises on higher efficiency levels of generating plants through renovation and modernization, transmission capacity to have redundancy level and margins as per international standards, adequate transitional financial support for reforming power utilities,

encouragement for private sector participation in distribution, putting in place independent third party meter testing arrangement, adoption of IT system for ensuring correct billing, speedy implementation of stringent measures against theft of electricity, emphasis on augmentation of R&D base, energy conservation measures, appropriate tariff structure for managing the peak load, development of training infrastructure in regulation, trading and power market, providing boost to renewable and non-conventional energy sources, and necessary regulations and early appointment of Ombudsman for redressal of consumers grievances.

Annexure

Salient features of the National Electricity Policy

1. Aims at accelerated development of power sector, providing supply of electricity to all areas and protecting interests of consumers and other stakeholders.

2. Objectives :

- a) Access to Electricity Available for all households in next five years.
- b) Availability of Power Demand to be fully met by 2012. Energy and peaking shortages to be overcome and spinning reserve to be available.
- c) Supply of Reliable and Quality Power of specified standards in an efficient manner and at reasonable rates.
- d) Per capita availability of electricity to be increased to over 1000 units by 2012.
- e) Minimum lifeline consumption of 1 unit/household/day as a merit good by year 2012.
- f) Financial Turnaround and Commercial Viability of Electricity Sector.
- g) Protection of consumers interests.

3. CEA to notify first National Electricity Plan in six months with a perspective up

12th Plan period. The Plan prepared by CEA to be used by prospective generating companies, transmission utilities and transmission / distribution licensees as reference document.

4. Development of Rural Electrification Distribution backbone, village electrification and household electrification to achieve the NCMP target of completing household electrification in next five years. Financial support in terms of capital subsidy to States for rural electrification. Special preference to Dalit Bastis, Tribal Areas and other weaker sections for rural electrification. REC to be nodal agency for rural electrification at Central Government level.

5. Creation of adequate generation capacity with a spinning reserve of at least 5% by 2012 with availability of installed capacity at 85%.

6. Full development of hydro potential. Provision of long tenor finance for these projects.

7. Choice of fuel for thermal generation to be based on economics of generation and supply of electricity.

8. Development of National Grid.

9. Cost of recovery of service from consumers at tariff reflecting efficient costs to ensure financial viability of the sector.

10. Provision of support to lifeline consumers (households below poverty line having consumption of 30 units per month) in terms of tariffs.

11. Availability based tariff (ABT) to be extended to State level for better grid discipline through economic signaling.

12. Special emphasis on time bound reduction of transmission and distribution losses.

13. Measures to promote competition aimed at consumer benefits.

14. Reliability and quality of power supply to be monitored by State Electricity Regulatory Commissions.

15. Exploitation of non-conventional energy sources such as small hydro, solar, biomass and wind for additional power generation capacity.

Other Features

16. Emphasis on achieving higher efficiency levels of generating plants through necessary renovation and modernization.

17. Central Government to facilitate the continued development of national grid. CTU and STU to undertake coordinated planning and development.

18. Transmission capacity to have redundancy level and margins as per international standards.
19. Adequate transitional financial support for reforming power utilities. Encouragement for private sector participation in distribution.
20. The State Regulatory Commissions to put in place independent third party meter testing arrangement.
21. Support for adoption of IT system for ensuring correct billing to consumers.
22. Speedy implementation of stringent measures against theft of electricity.
23. Full emphasis on augmentation of R&D base. Mission approach for identified priorities areas.
24. Demand side management through energy conservation measures. Labels regarding energy efficiency to be displayed on appliances. Efficient agricultural pumpsets and efficient lighting technologies to be promoted. Appropriate tariff structure for managing the peak load.
25. Special attention for developing training infrastructure in the field of regulation, trading and power market.
26. For giving boost to renewable and non-conventional energy sources, a prescribed percentage of power, as specified by State Regulatory Commissions, to be purchased from such sources of energy at the earliest.
27. Necessary regulations and appointing Ombudsman for redressal of consumers grievances to be in place in six months.
