

Free power at a big price

Sreekumar N and Ann Josey, Prayas (Energy Group)

A version of this article was published by The Hindu on 13 October 2021, and can be accessed on the following link: <https://www.thehindu.com/opinion/op-ed/free-power-at-a-big-price/article36972944.ece>

With elections around the corner in many States, political parties are competing with one another in promising free power, with the Aam Aadmi Party in the lead. Promises are for free power up to 300 units/month for households, free electricity for farmers and waivers of pending bills. Who stands to gain and lose from such promises?

Problems with free power

Let us first look at subsidised electricity supply to agriculture. Supported by state subsidy, electricity tariff to agriculture is low in most States – often less than ₹1/unit – and is free in some States such as Punjab, Tamil Nadu and Karnataka. While this helps in ensuring food security and promoting rural livelihood, free power has many adverse impacts. There is inefficient use of electricity and water, neglect of service quality by the distribution companies leading to frequent outages and motor burn outs, and high subsidy burden on the State governments. Since nearly three-fourth of the agriculture connections in the country are unmetered, consumption estimates are often inflated by distribution companies to increase subsidy demand and project low distribution losses. Any metering effort faces resistance as it is perceived as the first step towards levying charges. The experience over the past 15 years highlights that revoking the decision to provide free power requires significant political will. Opting-out schemes are being made but do not seem to have uptake. Free power provision along with issues of metering make implementation of Direct Benefit Transfer difficult. All this leaves farmers, distribution companies and State governments frustrated.

Providing subsidised low tariff for small consumers is necessary, considering the rising costs of electricity supply. The current cost is around ₹7-8/unit, which is not affordable for many small households. The situation is worse due to the economic slowdown and the pandemic. Basic requirements of a small household, such as lighting, fans, mobile charging and TV, require only about 50 units/month, which increases to about 100 units/month with a refrigerator. A low tariff — say, at half the cost of supply — can be justified for such consumers. The monthly consumption will be 200-300 units only if the household has high-end appliances like air- conditioners. But free power is already being provided for consumption up to 200 units/month in Delhi and Punjab.

Due to free power in Delhi, the total state subsidy amounts to 11% of the total expenses. In Tamil Nadu, where free power is available to households, half of the total subsidy is earmarked for this. If there is further increase in number and consumption limits of free power, the subsidy burden on State governments will substantially increase. There are already issues with metering and billing of households. This will also increase, especially since distribution companies are likely to pay limited attention to low-revenue consumers. Roof-top solar and energy efficiency are good environment-friendly options for homes but providing free power to well-off households will discourage them from taking these up. The familiar, tragic story of free or low-tariff agriculture supply is going to play out in this segment too, with poor consumers becoming the ultimate losers.

Limiting free power beneficiaries

Good power supply and service are necessary to improve quality of life and encourage productive activities. This in turn requires financially stable distribution companies and accountability measures for quality service for all, especially small and rural consumers. Free or low-tariff power is at best a short-term relief, which should be provided to those who desperately need it. A government which has the long-term interest of the people in mind should work to limit free power beneficiaries.

There are some ideas which would help in this journey. A fixed rebate of up to ₹200/month for residential consumers can be provided in the electricity bill. The impact on small consumers will be significant, compared to big. As the rebate is delinked from consumption, distribution companies won't have an incentive to inflate consumption. A similar rebate can be extended to home-based enterprises, which in most States pay high tariff. There can be additional rebates for adopting energy-efficient appliances like refrigerators, combined with State-level bulk procurement programmes to reduce the cost. The atmosphere of mutual mistrust between small consumers and distribution companies has to change. There should be quick resolution of arrears and one-time offers for settlements. If a bill amounts to more than three times that of previous bills, the distribution company should resolve it, without waiting for complaints. We hope that people question the wisdom of broad-brush promises such as free power, which cannot be sustained in the long run.

-X-