

## **Power to Bind and Loose**

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Haryana, Orissa, and West Bengal are among the Indian states that can be placed in the category of intermediate reformers. While these states have not undertaken wide-ranging reforms, however, they have implemented a series of reform measures that have separated them from the others. Power sector reform, for example, is an area where Haryana and Orissa have undertaken numerous steps. In June 1997, the Haryana state assembly approved the Haryana electricity reform bill that lays down the legal basis to establish an independent regulatory commission and to unbundle the Haryana state electricity board into a generating company, a transmission company and a number of distribution companies.

It is expected that the distribution network will be fully privatized by 2002. These measures will also be accompanied by tariff adjustments, comprehensive financial restructuring, and the implementation of a large investment program (about \$ 1.8 billion over 10 years) that includes transmission and distribution rehabilitation and expansion, generation plant modernization, demand side management and end-use energy efficiency improvement. The World Bank has agreed to support Haryana's efforts to the extent of \$ 600 million over a period of eight to 10 years, through a series of adaptable programme loans, a new lending instrument approved in September 1997.

Haryana's power sector reform programme involves the following: the unbundling and structural separation of generation, transmission, and distribution into separate services to be provided by separate companies and the incorporation of the new companies under the Companies Act.

Besides, it involves the privatization of the distribution system, private sector participation generation and transmission utilities, competitive bidding for new generation, as well as the development of an autonomous power sector regulatory agency. Moreover, it involves supply and end-use efficiency improvements and enhanced environmental protection and, finally, reforming the electricity tariffs at the bulk power, transmission and retail levels.

Additionally as part of the reform process, the state government has invited bids from private promoters - domestic and foreign – to set up small hydro–electrical power projects.

The state announced incentives for these producers which include exemption from electricity duty, sales tax exemption for plant and machinery purchased for the project and a Rs 2.25 per unit sale price to the HSEB with a five per cent annual escalation rate.

The Haryana State Energy Development Agency has also come up with incentives for power projects based on non-conventional energy sources. The Haryana government is promoting private investment to harness non-conventional energy sources for generating

electricity. The state government has identified biomass, waste recycling, mini hydel plants, wind and solar powered plants as approved power sources.

In 1992–93, the average tariff for agriculture was 25.5 paise kilowatt per hour. It has been raised over the years and was 50.0 paise/kWh in 1997-98. In the industrial sector, the average power tariff for 1992-93 was 171 paise/kWh and has been raised to 319.0 paise/kWh in 1997–98.

Orissa leads in power sector reforms at the state level. The state government enacted an amendment to India's national electricity acts of 1910 and 1948: the Orissa Electricity Reform Act, which became effective on April 1, 1996. Subsequently, the state government established the Orissa electricity regulatory commission. The commission announced its first tariff decision and issued its licenses to the transmission and distribution company, GRIDCO, in March 1997. The commission's tariff order inter alia authorizes GRIDCO to adjust its tariffs effective from April 1, 1997. The commission restructured residential and agricultural tariffs so as to contain cross-subsidization.

Keeping in view the policy of the central government to attract private entrepreneurs, Orissa state has worked out an innovative policy to provide basic infrastructure projects including the buying of and through the Orissa Power Generating Corporation. The state's chronic power deficit is being tackled by nine hydro projects with a total generating capacity of more than 7,000 megawatts.

The Orissa reform legislation contains several reform features, the first of which is restructuring. The former OSEB has been corporatized and is designed to be managed on commercial principles in its new form GRIDCO. While the newly formed GRIDCO has been put in charge of transmission and distribution, the hydro power generating stations, owned by the government, have been taken over by the Orissa Hydro Power Corporation.

The second is unbundling. The reform structure has incorporated principles of functional unbundling with regard to generation, transmission and distribution to be managed by separate corporations/companies. With regard to privatization, the OER Act, 1995 aims at fostering private participation in generation and gradual privatization of transmission and distribution.

The third is the regulatory commission. An important component is establishment of the Orissa electricity regulatory commission for ensuring achievement of objectives given in the Orissa Electricity Reform Act, 1995. Fourth comes licensing. Government ownership and direct control have given way to a licensing system in respect of transmission and distribution activities. Finally, tariff. Determining tariff which would ensure a commercial rate of return for investment in the electricity industry while preserving rights of all categories of consumers with respect to cost, efficiency and quality of service.

The power tariff on agriculture in 1992–93 was 30.9 paise/kWh. In 1993-94 it was dropped to 21.2 paise/kWh. The subsequent year, 1994–95, the power tariff on agriculture rose to 53.1 paise/kWh and was raised to 55.0 paise/kWh in 1996–97.

The average tariff for industry has also been increased. The 1992–93 tariff stood at 89.1 paise/kWh and was raised to 220.3 paise/kWh in 1996-97.

Economic reforms at the state level have an unfinished agenda. While some states have demonstrated their commitment by implementing reforms in certain sectors of the state economy, a majority is yet to initiate any significant policy changes. Even the reform-oriented states have

avoided taking on reforms in some areas, such as fiscal reform in general and reduction of revenue deficits in particular, state-owned enterprise reform, and state electricity board reform, except in Haryana and Orissa. The state governments have continued with subsidy schemes irrespective of whether or not the subsidies are reaching the target groups. While Haryana and Orissa have undertaken some hard reform measures in the power sector, they have not initiated any major policy reform in other sectors of the economy.

Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh are badly in need of reform. All are land locked states, while the reform-oriented states are coastal, and hence can develop as major platforms for labour-intensive manufacturing exports. Statistics prove that reform-oriented states have performed much better whether in terms of economic indicators, such as growth rates or foreign direct investment flows, or social indicators, such as birth/death rates, infant mortality rates or literacy rates.