Why privatization push in power isn’t needed

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- An EPW article about proposed changes to the Electricity Act blames the Centre for the financial distress of discoms

The Centre’s proposed amendments to the Electricity Act, 2003, aim to strengthen the franchisee model in the power distribution segment. A new article in the Economic and Political Weekly argues that it is a push for privatization in the hope to cut procurement and operation costs for financially distressed distribution companies. But the article says such a goal may not be met.

Under the franchisee model, state-owned discoms, or distribution companies, would maintain the wires and infrastructure, and a sub-licensee, presumably from the private sector, would supply electricity to consumers.

Authors Tejal Kanitkar, Sudha Mahalingam, and R. Srikanth argue that it is not the discoms but the central government that has been responsible for the high cost of power procurement in the first place.

The sector grew slower than expected even before the pandemic, and the Central Electricity Authority also lowered demand projections. Yet, discoms have to pay fixed charges to power plants as per agreements they had already signed. Coal prices have risen in the last few years, partly due to the central government's coal cess, yet another cost passed on to discoms. The 'unrealistic' push for renewable energy has also raised costs, the authors say.

Hence, privatizing distribution is not the answer to the problem of rising procurement cost. Nor is it the only way to bring down the cost of operations, the authors say, citing the positive impact of the Ujwal Discom Assurance Yojana (UDAY) on discoms. Therefore, the claim that only privatisation will succeed in the sector is "patently false to begin with", say the authors.

Robust planning at all levels of government and integration of generation, transmission and distribution is required, not hasty privatisation, to address the long-term crises of the power sector, concludes the article.