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Historically, retail power tariffs have been governed more by socio-economic and political considerations rather than purely economic factors. This has resulted in a skewed tariff structure with industrial and commercial categories subsidising domestic and agricultural users.

Despite high tariffs, the quality and reliability of supply have been substandard. Several energy-intensive industrial consumers have shifted to captive generation. This has increased the cross-subsidy burden on other industrial and commercial consumers.

One of the guiding principles is that tariffs should reflect the efficient and prudent cost of electricity supply with a differentiation only on the basis of consumer load factor, voltage level and total power consumption. The state governments should put in place a multiple-year tariff framework that allows fast recovery of uncontrollable costs and asymmetric sharing of incentives.

Many of these guiding principles have not been followed over the past three years. However, if the recent tariff hikes are any indication, this trend can be reversed.

The state electricity regulatory commissions (SERCs) have initiated steps to bring about a gradual reduction in cross-subsidies. For instance, tariffs for domestic consumers are being levellised with the cost of supply. The agricultural sector, however, continues to be heavily subsidised and the bulk of the cost is borne by state governments. In most cases, the tariff increase for the subsidising categories (non-domestic and industrial consumers) was lower than the hike for the subsidised categories till 2006-07. However, increasing power costs since 2007-08 have been a setback.

Key trends

There was a sharp increase in power costs between 2007-08 and 2009-10. However, power costs plateaued in 2010-11, with states like Haryana and Assam even showing a decline. Cross-subsidisation levels have been increasing and are very high in states like Kerala, Orissa, Andhra Pradesh and Maharashtra.

However, there have been different trends for various power transactions – long-term power costs have been increasing while short-term costs have been declining.

High fuel costs and increasing capital expenditure for new capacities have been driving long-term power costs. On the other hand, the reluctance to pick up expensive short-term power and its increased availability have reduced the cost of electricity. The SERCs' restrictions on volumes and prices, and the marginal profitability of utilities have also contributed to this.

Despite these positive developments, non-domestic and industrial consumers continue to cross-subsidise other categories. The average cost of supply is Rs 3.41 per kWh. The cross-subsidisation level is high as compared to the cost of supply for the subsidising category.

Industrial tariffs versus commercial tariffs

Telecom power usage is charged under the commercial power category. States like Kerala, Madhya Pradesh, West Bengal, Andhra Pradesh and Maharashtra have the highest tariffs for this category. Grid power usage by the telecom sector is the highest in Andhra Pradesh and Tamil Nadu.

Of late, several state power utilities have been suggesting to telecom tower companies to shift from the commercial category to the industrial segment as tariffs are lower for the latter. However, power availability is also lower for the industrial category as compared to commercial consumers.

Outlook

Going forward, competitive bidding will be a key factor driving cost reduction. However, due to growing losses of distribution companies, the near-term outlook is not positive in terms of tariffs, which are likely to increase by 15-20 per cent over the next year and 6-7 per cent beyond that. The highest tariff increase is expected in Tamil Nadu (35 per cent), while the lowest hike is expected in Gujarat (5-7 per cent).

Power availability is likely to increase by 15,000-20,000 MW annually. Another likely trend is the increasing demand from high-end consumers including the industrial and commercial segments vis-à-vis retail users.