



## Bringing power reform

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**(Mains GS 3 : Infrastructure: Energy, Ports, Roads, Airports, Railways etc.)**

### Context:

India has a population of about 135 crore people and the sixth largest economy in the world with a high growth potential but this growth potential cannot be achieved without giving equal opportunity to every State.

### Deprived on many fronts:

- The low-income States (LIS) are deprived on many fronts as they have low accessibility to credit, low investments, low power availability and accessibility, and high energy costs.
- The high-income States (HIS), on the other hand, have a big share in industry and commerce because they are not deprived on the same fronts.
- The six HIS (Maharashtra, Tamil Nadu, Gujarat, Karnataka, Andhra Pradesh and Telangana) together account for 56.4% of factories and 54.3% of the net value added to the country, while their share in population is only 32.3%.
- This is because of having higher credit and financial accessibility (55% of total institutional credit and 56% of total industrial credit went to these five HIS) at the credit-deposit ratio.
- On the other hand, the six LIS (Bihar, Jharkhand, U.P., M.P., Odisha, and Rajasthan) access only 15% of total institutional credit and barely 5% of total industrial credit, while their share in population is 43%.

### Role of power:

- The availability of adequate quality power at the cheapest rate attracts investments, either private or public, in a particular location and becomes an important factor to start electricity-intensive industrial production.
- Of the total consumption of electricity, industry and commerce account for more than 50%.
- Thus according to Energy India Outlook 2021 “Electricity prices vary not just among end users, but also between states, where a complex patchwork of different taxes and subsidy regimes can leave consumers in some states paying five times more for their electricity than their counterparts in neighbouring states.”

### **Eliminate price discrimination:**

- The power-producing States have the advantage of power, especially hydel power, being available at lower prices.
- Thus synchronising all the regional grids will help the transfer of energy (without compromising quality) and serve the idea of ‘One Nation, One Grid, One Frequency’.
- Further, this will pave the way for establishing a vibrant electricity market and facilitate the trading of power across regions through the adoption of the ‘one tariff’ policy.
- Without this policy, States with higher power purchasing costs face the difficulty of making energy traffic competitive by paying high subsidies from already scarce resources.
- The Central Electricity Regulatory Commission is in the process of implementing a framework of the Market-Based Economic Dispatch and moving towards ‘One Nation, One Grid, One Frequency, One Price’.

### **Electricity duty under GST:**

- Apart from uniform cost, the power sector also needs uniformity in electricity duty charged by different States because the association between income and electricity consumption is direct.
- According to the Central Electricity Authority, Ministry of Power, Government of India, in 2020-21, six States consumed 50% of the total installed capacity of power.
- Contrary to this, six backward States got only 25% of the power though their share of the population is 43%.
- Therefore, it is clear that the substantial proportion of the power cost incurred in HIS is also borne by the LIS which buys those industrial products, as the input cost of power has already been included in the product’s price.
- Thus, the electricity duty should be redistributed among the States under the ambit of GST equally shared by the CGST and SGST.

- However, 100% CGST should be devolved among the States through the Fifteenth Finance Commission formula, without being shared with the Centre (as electricity duty is State subject).

**Conclusion:**

In order to attain higher economic growth, the States should raise the issue of uniform energy tariff and inclusion of electricity duty under the ambit of GST as the decision will benefit the whole nation through rational tax devolution and, therefore, provide the opportunity to attain higher growth.