# The Electricity Act, 2003

## Important facts and figures:

The Electricity Bill, 2001 was introduced in Lok Sabha on 30th August, 2001 and was subsequently referred to the Standing Committee on Energy for examination and report. The Standing Committee submitted its report on 19th December, 2002.

Based on the recommendations of the Standing Committee on Energy, the Government of India moved certain amendments. The Electricity Bill, 2001 along with these amendments, was passed by Lok Sabha on 9th April, 2003.

The Bill as passed by Lok Sabha was considered and passed by Rajya Sabha on 5th May, 2003.

The Electricity Bill, 2003 as passed by both Houses of the Parliament received President's assent on 26th May, 2003 and was notified in the Gazette of India on 2nd June, 2003.

The provisions of the Act except section 121 were brought into force with effect from 10th June 2003.

## Background and salient features of the Act

1 Power is today a basic human need. It is the critical infrastructure on which modern economic activity is fully dependent. Only 55% households in India have access to electricity. Most of those who have access do not get uninterrupted reliable supply. The industry in India has among the highest tariffs in the world and is not ssured of the quality of supply. In this era of globalisation, it is essential that electricity of good quality is provided at reasonable rates for economic activity so that competitiveness increases. Being internationally competitive is now essential for achieving the vision of 8% GDP growth per annum, employment generation and poverty alleviation.

2 In recent years the financial health of SEBs has been deteriorating. There is a big gap between unit cost of supply and revenue and the annual losses of SEBs have been increasing and have reached unsustainable levels (over Rs. 33,000 crores).

3 In the last two Plan periods, barely half of the capacity addition planned was achieved. The optimistic expectations from the IPPs have not been fulfilled and in retrospect it appears that the approach of inviting investments on the basis of government guarantees was perhaps not the best way. The energy as well as peaking shortages across the country is a matter of concern and the situation would have been worse but for the slowdown in manufacturing sector.

4 The Hon'ble Prime Minister and Chief Ministers have set before the nation the goal of electrifying all our villages by 2007 and all our households by 2012. Access is yet to be provided to about 80,000 villages. Uninterrupted and reliable supply of electricity for 24 hours a day needs to become a reality for the whole country including rural areas. Enough generating capacity need to be created to outgrow the situation of energy and peaking shortages and make the country free of power cuts with some spare generating capacity so that the system is also reliable. The sector is to be made financially healthy so that the state government finances are not burdened by the losses of this sector. The sector should be able to attract funds from the capital markets without government support. The consumer is paramount and he should be served well with good quality electricity at reasonable rates.

5 It is in this context that the Electricity Act, 2003 seeks to bring about a qualitative transformation of the electricity sector through a new paradigm. The Act seeks to create liberal framework of development for the power sector by distancing Government from regulation. It replaces the three existing legislations, namely, Indian Electricity Act, 1910, the Electricity (Supply) Act, 1948 and the Electricity Regulatory Commissions Act, 1998. The objectives of the Act are to consolidate the laws relating to generation, transmission, distribution, trading and use of electricity and generally for taking measures conducive to development of electricity industry, promoting competition therein, protecting interest of consumers and supply of electricity to all areas, rationalization of electricity tariff, ensuring transparent policies regarding subsidies, promotion of efficient and environmentally benign policies, constitution of Central Electricity Authority, Regulatory Commissions and establishment of Appellate Tribunal and for matters connected therewith or incidental thereto.

6 The Act strikes a balance which takes into account the complex ground realities of the power sector in India with its intractable problems.

**The salient features of the Act are:**

1. The Central Government to prepare a National Electricity Policy in consultation with State Governments. (Section 3)
2. Thrust to complete the rural electrification and provide for management of rural distribution by Panchayats, Cooperative Societies, non-Government organisations, franchisees etc. (Sections 4, 5 & 6)
3. Provision for licence free generation and distribution in the rural areas. (Section 14)
4. Generation being delicensed and captive generation being freely permitted. Hydro projects would, however, need clearance from

the Central Electricity Authority. (Sections 7, 8 & 9)

5 Transmission Utility at the Central as well as State level, to be a Government company with responsibility for planned and coordinated development of transmission network. (Sections 38 & 39)

6 Provision for private licensees in transmission and entry in distribution through an independent network, (Section 14)

7 Open access in transmission from the outset. (Sections 38-40)

8 Open access in distribution to be introduced in phases with surcharge for current level of cross subsidy to be gradually phased out along with cross subsidies and obligation to supply. SERCs to frame regulations within one year regarding phasing of open access. (Section 42)

9 Distribution licensees would be free to undertake generation and generating companies would be free to take up distribution businesses. (Sections 7, 12

10 The State Electricity Regulatory Commission is a mandatory requirement. (Section 82)

11 Provision for payment of subsidy through budget. (Section 65)

12 Trading, a distinct activity is being recognised with the safeguard of the Regulatory Commissions being authorised to fix ceilings on trading margins, if necessary. (Sections 12, 79 & 86)

13 Provision for reorganisation or continuance of SEBs. (Sections 131 & 172)

14 Metering of all electricity supplied made mandatory. (Section 55)

15 An Appellate Tribunal to hear appeals against the decision of the CERC and SERCs. (Section 111)

16 Provisions relating to theft of electricity made more stringent. (Section 135-150)

17 Provisions safeguarding consumer interests. (Sections 57-59, 166) Ombudsman scheme (Section 42) for consumers grievance redressal.