

With market pricing, regulation will be critical

With the government now looking at the possibility of bringing in even commercial miners into the coal industry, and gas prices being raised—and the possibility of even higher prices for deep water blocks—it needs to consider how it will run the energy sector. The large losses of the electricity sector, running into tens of thousand crore each year will, for instance, only rise further as more market-based fuel prices are built into the equation. Allowing for coal or gas-based pooling, likely to be cleared by the Cabinet in a week or two, is irrelevant since a mechanism needs to be found to pass on the higher prices to customers. Theoretically, the existing electricity regulators can do the job, but it is because they have failed so miserably, that we are in the situation we are in today. Some part of this is sought to be addressed in the new Electricity Act, but unless there is a cap built into the law on how much loss is to be tolerated, it is not going to be possible to ensure the regulators do their job. Regulation also gets more complicated since, with the government veering around to price-bids versus regulatory pricing, there is no formula to deal with unexpected cost increases as happened when, for instance, the Indonesian law on coal exports changed.

Things get even more complicated in the coal sector. For one, the dominant player is going to be Coal India for several years to come. Regulatory history has shown it is impossible for a regulator to discipline a monopolist, especially if that happens to be a government company—India doesn't have much of a regulatory history, but in telecom where this is the longest, Trai wasn't able to get BSNL to fall in line for all the years it had a dominant position. Two, once commercial mining is allowed, regulation gets even more complicated—will there be cost-plus pricing as was done in the power sector initially or will it be based on competitive-bidding? The more important issue here is that, if commercial pricing is to be allowed for raw materials like coal, can this principle be avoided in the case of the end-use industry like power and fertilisers? In the case of gas, to use the current impasse over Reliance Industries Limited's alleged gold-plating, what is the regulatory principle to be used to determine the fair price for gas? There is no simple answer, though a single energy regulator has been offered as a solution by some in the same manner that a single financial regulator has been offered as a panacea for the financial sector. What is clear, though, is that a more comprehensive solution needs to be thought out for the way ahead.