

# Tamil Nadu Electricity Sector: The Subsidy Narrative (1989-2016)

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## Project Overview

This working paper was written as part of a collaborative research project, Mapping Power, which aims to provide a state-level analysis of India’s electricity governance. The project is coordinated by Sunila S. Kale (University of Washington, Seattle), Navroz K. Dubash (Centre for Policy Research), and Ranjit Bhavirkar (Regulatory Assistance Project), and carried out by a team of 12 researchers. The research explores the views and perspectives of various stakeholders and organizations in each state and how they will be affected by new initiatives in India’s electricity sector, as well as the forces and constraints that shape decision-making in electricity governance. Using data from qualitative interviews with key informants buttressed by quantitative data, the research team covered 15 states as part of the analysis: Andhra Pradesh, Bihar, Delhi, Gujarat, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Uttarakhand, Uttar Pradesh, and West Bengal. You can learn more about Mapping Power as well as access other working papers in the series here: <http://www.cprindia.org/projects/mapping-power>.

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## Abstract

Since the 1990s, Tamil Nadu's electricity sector has been synonymous with subsidies. These subsidies have often been perceived as steps taken by political parties to increase their voter base. This is especially so when certain sizeable categories of electricity consumers—agricultural, domestic, etc.—are targeted. Despite the seemingly political motivations behind electricity subsidies, little is known about the interaction of consumers and other stakeholders in getting these subsidies for themselves.

This paper takes the view that not all subsidies are politically motivated, but are grounded in the socioeconomic and developmental contexts of the particular time period. The paper will trace the history of electricity subsidies in Tamil Nadu from 1990 and highlight how various electricity consumer categories have actively lobbied for getting electricity subsidies in various forums—political, judicial, administrative, or regulatory. Further, it will explore the reasons as to what necessitated the subsidies and look at the particular strategies used by consumers to obtain them. It should be noted that the category of subsidies is not limited to free power, but also includes shifting of consumers from higher tariffs to lower tariffs and creation of new consumer categories. Further, this paper also highlights that subsidies are often used as a means to enable growth and development of certain consumer sectors in Tamil Nadu.

To understand the history of electricity subsidy in Tamil Nadu, this paper attempts a narrative by taking into account events that occurred from 1989, starting from the farmers' agitation, and leading up to the 2016 elections. The tenures of the elected governments are taken as the basis for the temporal analysis. Further, the effect of the subsidy mechanism on the financial position of the state's utility, the restructured Tamil Nadu Electricity Board (TNEB Ltd.) will also be analysed. Within the time period of the elected governments, the paper will seek to understand the underlying motivations of the consumer categories to become part of the subsidy mechanism while at the same time analysing the political, judicial, administrative and regulatory reasoning.

The conclusions will seek to bring out recommendations to debate the direction in which electricity subsidies is moving and to understand the implications for the governance of the electricity sector in Tamil Nadu.

## Introduction

The scope of the mechanism by which Tamil Nadu consumers receive electricity subsidies extends from free power to partial subsidies, wherein a portion of the consumption is paid for by the government. These subsidies are spread over several consumer categories that have been gradually added between 1990 and 2016. Basic analysis and popular belief, it is easy to dismiss these consumer categories as having found their way into the subsidy scheme solely on the basis of vote-bank politics.

However, larger questions remain: How were these consumer categories were chosen by the political parties? What kind of interactions did these consumer groups have to get subsidies? It should also be noted that there were other categories of consumers, such as fish farmers, who lobbied, unsuccessfully, to be part of the subsidy scheme. These consumer groups either did not have the sufficient lobbying capacity or due to varying reasons could not be included. There is also the example of lift irrigation

farmers, who lobbied during a different time period in various forums and ultimately succeeded in becoming part of the subsidies regime.

Despite the seemingly political motivations behind electricity subsidies, little is known about the interaction of electricity consumers and other stakeholders for getting the subsidies. There could have been other interactions between various consumer categories and other government agencies, including the Regulatory Commission, state departments, and courts, highlighting genuine grievances resulting in favourable decisions.

In this context, it is argued that between 1989 and 2016, genuine concerns about consumer categories, rather than vote-bank politics of the elected government, played an important role in shaping the electricity subsidy regime of the Tamil Nadu electricity sector. It is further argued that socioeconomic conditions and context have equally important implications for electricity subsidies, more so than the promises made by the elected government of the particular time period.

As a result, Tamil Nadu's electricity subsidy scheme cannot be seen in isolation but has to be related to socioeconomic development of the time period, with reference to particular categories of electricity consumers. These factors have resulted in government policies, administrative decisions, regulatory orders, and judicial cases favouring electricity subsidies. The opportunistic political party, in turn, uses the subsidy scheme to its advantage in vote-bank politics.

The analysis is divided up according to the length of each elected government. This is done with the assumption that an elected government for the particular time period would have set a favourable subsidy policy for a particular consumer category or not, thus marking either a departure from the previous government or a maintenance of the status quo. Further, the breakdown by time period helps highlight the various subsidy milestones for the Tamil Nadu electricity sector.

The paper is organised as follows: Section 1 will give a subsidy-related overview of the Electricity Sector in Tamil Nadu, including a timeline. Section 2 will analyse the various events through the lens of the electricity subsidies. Section 3 will offer conclusions and frame subsidies' implications for the future governance of the electricity sector.

## I. Overview of Electricity Sector

The Tamil Nadu Electricity Board (TNEB) was set up in 1957 with the aim to supply, transmit, and distribute electricity in the "most efficient and economical manner". In November 2010, it restructured itself into TNEB Ltd., a holding company with two separate companies: Tamil Nadu Generation and Distribution Corporation (TANGEDCO) Ltd., taking care of generation and distribution of electricity, and Tamil Nadu Transmission Corporation (TANTRANSCO) Ltd., with sole responsibility over electricity transmission.

Historically, the Tamil Nadu power sector had been one of the better-performing public utilities in the country. Free power as a scheme started in 1990, when the agricultural sector was not charged for its consumption.<sup>1</sup> Gradually, the electricity subsidy scheme in Tamil Nadu was spread over the following consumer categories, with their status as of 2016 as follows: Free power is supplied to agricultural

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<sup>1</sup> Government Order of 1990.

consumers in both the regular and SFS categories, hut consumers, powerloom consumers, handloom weavers, and lift irrigation—cooperative societies; domestic consumers and places of public worship are charged reduced tariffs.<sup>2</sup>

The subsidised power scheme must be seen in the light of the Electricity Act 2003. Until 2003, there was “no charge” on electricity for the subsidised category of agriculture and domestic consumers. As a result, the utility was left to bear the loss of revenue. After 2003, the Electricity Act 2003 mandated that the utility be run on commercial principles, leading to a support mechanism where the Tamil Nadu government started compensating the revenue loss of the utility.<sup>3</sup>

Another common mechanism at the disposal of the government and Tamil Nadu Electricity Regulatory Commission (TNERC) to recoup the foregone revenue was to use a cross-subsidy that resulted by charging high-tension (HT) consumers a higher amount. As on latest tariff order issued in 2014, HT consumers bear around 141% of the cross-subsidy surcharge.<sup>4</sup>

Until 2000, the power utility was self-supporting and was able to support itself through enhanced borrowing.<sup>5</sup> With the initiation of the free power scheme, the utility started accumulating losses. Starting from 2001-02, the effect of the subsidy on electricity revenue was first felt when the revenue deficit was “pegged at Rs. 3,000 crores”. This was specifically attributed to “losses to TNEB on account of free and subsidised power”<sup>6</sup>. The Government of Tamil Nadu at that time made a provision of Rs. 500 crores. The deficits in subsidy amount are being adjusted in the next years using a true-up mechanism.<sup>7</sup> Over the years, the revenue deficit for the subsidised categories stood at Rs. 8131.56 crores.

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<sup>2</sup> Tamil Nadu Electricity Regulatory Commission (TNERC), Order No. 6 of 2016, <http://tnerc.tn.nic.in/orders/Tariff%20Order%202009/2016/SUBSIDY%20ORDER%202016-17.pdf>.

<sup>3</sup> Electricity Act, 2003, u/s 65.

<sup>4</sup> TNERC, Suo-Motu Determination of Tariff for Generation and Distribution, 2014, <http://www.tnerc.gov.in/orders/Tariff%20Order%202009/2014/Tariff%20Order/TANGEDCO/Tariff%20Order%209%20of%202014-TANGEDCO.pdf>.

<sup>5</sup> Tamil Nadu 11<sup>th</sup> Legislative Assembly Review, 1991-1996, p. 101, [http://www.assembly.tn.gov.in/archive/11th\\_1996/Review-1996.pdf](http://www.assembly.tn.gov.in/archive/11th_1996/Review-1996.pdf).

<sup>6</sup> C. Ponnaiyan, Tamil Nadu Minister of Finance, Presentation of Revised 2001-02 Budget, [http://www.assembly.tn.gov.in/archive/12th\\_2001/Budget2001-02.pdf](http://www.assembly.tn.gov.in/archive/12th_2001/Budget2001-02.pdf).

<sup>7</sup> E.g., TNERC, Order No. 5 of 2015, <http://tnerc.tn.nic.in/orders/Tariff%20Order%202009/2015/Subsidy%20Order%205%20of%202015-16%20-16-10-2015.pdf>.

**Table 1: Highlights of subsidy requirements 2004–2016**

Year/ consumer category	Domestic (Reduction in tariff)	Agricultural consumers under normal category (Free supply)	Agricultural consumers under SFS category (Free supply)	Hut consumers (Free supply)	Actual places of public worship (Reduction in tariff)	Power loom consumer (Free Supply)	Handloom weavers (Free supply)	Lift irrigation – cooperative societies (Free supply)	Total in crores
2016-17	4563.90	2618.17	718.6	198.28	16.55	360.48	4.67	4.70	8131.56
2015-16	3029.06	2589.01	719.0	199.73	15.62	316.15	6.66	5.08	6880.31
2014-15	2160.76	2326.73	597.13	183.07	13.32	282.15	5.23	2.77	5571.16
2013-14	1888.13	2084.42	556.48	196.15	9.75	238.38	10.03	1.75	4985.09
2012-13	1767.72	1577.38	392.23	108.24	12.12	156.3	8.87	2.10	4024.96
2011-12	1581.00	218.34	57.40	17.47	6.52	59.21	6.64	0.30	1946.88
2010-11	1455.25	217.67	54.13	17.61	6.30	29.72	6.03	0.45	1787.16
2009-10	1369.53	213.39	51.53	16.66	5.99	28.05	27.45	0.12	1712.72
2008-09	1220.13	209.63	45.18	14.13	6.80	30.78	31.08	16.80	1574.53
2007-08	1073.95	206.10	42.24	12.25	3.82	32.56	24.86	16.80	1412.58
2006-07	1009.32	206.10	34.78	16.00	3.64	30.73	16.80	NA	1317.37
2005-06	981.66	200.42	NA	16.00					1198.08
2004-05	910.00	196.04	NA	16.91					1122.95

Source: TNERC tariff orders, provision of tariff subsidies by the Government of Tamil Nadu

In terms of data available, for example for the agricultural sector, as per data available from 1992-93 to 2013-14, it is seen that share of agriculture in electricity consumption is nearly 17% of the total electricity generation and shows a downward trend in terms of share. The share of domestic sales was 33.71% as of 2014.<sup>8</sup>

**Table 2: Share of Electricity Sales by Economic Sector**

Year	Share of Agriculture in Total Sales	Share of Industry in Total Sales	Share of Domestic in Total Sales
1992-93	27.00	NA	NA
1993-94	25.90	40.20	NA
1994-95	27.00	39.95	NA
1995-96	26.90	39.89	NA
1996-97	26.03	40.26	NA
1997-98	27.00	40.05	NA
1998-99	27.12	36.20	NA
1999-00	27.23	36.24	NA
2000-01 (RE)	27.23	36.24	NA
2001-02 (AP)	27.99	35.60	NA
2002-03	NA	NA	NA
2003-04	25.0	35.17	25.3
2004-05	24.2	33.67	27.5
2005-06	22.5	37.4	25.4
2006-07	21.5	39.0	24.4
2007-08	21.04	37.89	24.8
2008-09	21.48	33.86	24.9
2009-10	21.51	31.93	27.02
2010-11	16.02	35.85	28.23
2011-12 (Prov.)	16.54	35.88	28.98
2012-13 (RE)	15.67	31.23	31.76
2013-14 (AP)	12.83	31.92	33.71

From a financial perspective, the average cost of supply and average rate of realisation did not match between 2005 and 2013, with a loss per unit from (-).45 paise to (-) Rs. 2.19 per unit of power.

<sup>8</sup> The domestic supply figures from 1992 to 1999 were not available, requiring extrapolations of the share of their electricity based on previous years.

**Table 3: Cost of Supply, Rate of Realization, and Losses per Unit**

Year	Average cost of supply Rs./unit	Average rate of realization Rs./unit	Loss per unit
2005-06	3.52	3.07	(-) 0.45
2006-07	3.55	3.10	(-) 0.45
2007-08	4.00	3.19	(-) 0.81
2008-09	4.86	3.13	(-) 1.73
2009-10	5.09	3.11	(-) 1.98
2010-11	5.55	3.43	(-) 2.12
2011-12	6.12	3.73	(-) 2.39
2012-13	5.98	3.79	(-) 2.19

For instance, the differences in the rate of realisation for the tariff rate and average cost of supply in 2012-13, for huts and agricultural consumers, are between -53.85% and -70%. At the rate of cross-subsidisation with other consumer categories, namely HT commercial, LT commercial and LT industrial, the rate of realisation is greater than cost of supply.

**Table 4: Rate of Realisation**

Category	Estimated rate of realisation for the proposed tariff rate in Rs/unit for 2012-13	Estimated average cost of supply in Rs/unit for 2012-13	% of cost of supply
HT Commercial	7.59	5.98	26.92
LT Commercial	8.36	5.98	39.80
LT Industrial	8.72	5.98	45.82
LT Agriculture	1.75	5.98	-70.74
LT Hut	2.76	5.98	-53.85

The result of the losses is clearly felt in terms of the ongoing power supply deficit, which is due to lack of investment in generation capacity, augmenting transmission infrastructure, and upgrading of

distribution lines. The losses have had another effect, wherein the utility had to divert funds from approved schemes to others expenditure. Further, the lack of timely subsidy disbursal by the Government of Tamil Nadu and lack of timely tariff revision have created the present situation.

The above subsidy gap has contributed to the revenue deficit for TANGEDCO, and as of 2016, the revenue deficit stood at Rs. 81,782 crores.<sup>9</sup> This figure not only includes subsidies, but also interest on borrowing, and the lack of inventory or a materials management system in place that has led to non-replacement of crucial assets, etc.<sup>10, 11</sup>

<b>Table 5: A Timeline of Subsidy and Political Events in the Tamil Nadu Power Sector</b>		
<b>Year</b>	<b>Institutional Milestones</b>	<b>Explanation</b>
1957	Formation of TNEB	Until 2010, functioned as an integrated utility responsible for generation, transmission and distribution of power
1983-89	Farmers' agitation	Discontent over increase in electricity charges, procurement prices
1989	Dravida Munnetra Kazhagam (DMK) government elected to power	Election manifesto promises free power to farmers
1990	Free power to farmers	Government order passed on free power to farmers
1991	AIADMK voted to power	Promises to increase power supply production and solar power generation
	Poultry, sericulture, and dairying into the broad heading of agriculture	

<sup>9</sup> "Centre eases norms to help State join UDAY," *The Hindu*, September 4, 2016, <http://www.thehindu.com/todays-paper/tp-national/tp-tamilnadu/centre-eases-norms-to-help-state-join-uday/article9071345.ece>.

<sup>10</sup> TNERC, Suo-Motu Determination of Tariff for Generation and Distribution, 2014.

<sup>11</sup> Interview notes, 2016.

	Huts given free power	
1996	DMK voted into power	Farmers who are ready to pay the cost for getting electricity connection will be given priority for electricity access
1996-97	Electricity subsidy for sugarcane crushing	
1999	Formation of TNERC	
2001-06	AIADMK voted into power	
		Free power to powerloom sector
		TNEB posts its first loss of Rs. 3000 crores
2003	TNERC issues first tariff order	Recategorisation of small clinics to domestic category
	Government of Tamil Nadu provides subsidised power to domestic sector	
2006 – 11	DMK voted into power	Promises free power to handloom weavers
	Free electricity to farmers under self-financing scheme (SFS)	
	Free power to lift irrigation <sup>1213</sup>	

<sup>12</sup> TNERC, Order No. T.O.3-3/2010, <http://www.tnerc.gov.in/orders/Tariff%20Order%202009/2010/T.O.3-3%20of%202010%20.pdf>.

<sup>13</sup> TNERC, Tariff Review Petition No. 1/2003, <http://www.tnerc.gov.in/Orders/TRP1-2003%20.pdf>.

	100 units bimonthly to handloom weavers having their own workshed; 500 units bi-monthly to powerloom weavers	
	Free power to 2.4 lakhs agricultural consumers	
	Free electricity for Scheduled Caste/Scheduled Tribes – open irrigation wells	
2010	TNERC second tariff order	Consumers lobbied for changing their categories from higher to lower tariff schedules
		Concessional tariff for fish culture, horticulture
	Power cuts in Tamil Nadu	Power cuts in Tamil Nadu
2011- 16	AIADMK	Promises new generation projects, solar powered homes
2012	TNERC third tariff order	TNERC brings all agricultural and allied activities under agricultural tariff category- Free power
		Concessional tariffs for private educational institutions
2013	TNERC fourth tariff order	Included more allied activities to the

		agricultural category
2014	TNERC fifth tariff order	Suo-moto tariff order; disputed and dissenting
2016 -	AIADMK voted into power	100 units free power to domestic category
	Tamil Nadu agrees to join UDAY scheme	

## II. Analysing the Electricity Subsidy: 1989–2016

### Farmers’ Agitation: 1987–1990

Before the provision of free power to farmers began, Tamil Nadu faced an underlying problem in the longstanding arrears of electricity charges, or belated payment surcharge (BPSC), for usage of pumpsets that the farmers were refusing to pay. Between 1977 and 1989, it was estimated that an “amount of Rs. 120 crore is outstanding by way of arrears of interest on electricity dues from pumpset farmers to the Tamil Nadu Electricity Board”.<sup>14</sup> The previous All India Anna Dravida Munnetra Kazhagam (AIADMK) government, headed by Chief Minister M.G. Ramachandran, had relented to the demands of the farmers and as a Pongal decided to waive the arrears in January 1988.<sup>15</sup>

Further, the issues had its effect in the Legislative Assembly in 1987. This was represented to the Tamil Legislative Assembly Committee by the agriculturists at Salem that the exorbitant penalty levied by the Tamil Nadu Electricity Board on agriculturists using pump-sets fitted with unauthorised air-compressors for lifting water from agricultural wells as well as Deep bore-wells be waived.<sup>16</sup> Following this, TNEB asked agricultural consumers to declare unauthorised loads voluntarily, regularisation of the

<sup>14</sup> The arrear is referred to as “belated payment surcharge” (BPSC), which has been levied on the amount of electricity dues accumulated due to intensive farmers’ agitations led by Narayanasamy Naidu starting in 1977. See “Problems of Pumpset-Farmers in Tamil Nadu,” *Economic and Political Weekly*, February 1989, <http://www.epw.in/journal/1989/7/roots-specials/problems-pumpset-farmers-tamil-nadu.html>.

<sup>15</sup> Pongal usually means festivity or celebration; more specifically it is translated as “boiling over” or “overflow.” Pongal is also the name of a sweetened dish of rice boiled with lentils that is ritually consumed on this day. Symbolically, pongal signifies the gradual heating of the earth as the sun travels northward toward the equinox. See: [https://en.wikipedia.org/wiki/Thai\\_Pongal](https://en.wikipedia.org/wiki/Thai_Pongal).

<sup>16</sup> Tamil Nadu 8<sup>th</sup> Legislative Assembly Review, 1985-88, p. 126, [http://www.assembly.tn.gov.in/archive/8th\\_1985/8threview\\_85-88.pdf](http://www.assembly.tn.gov.in/archive/8th_1985/8threview_85-88.pdf).

same without penal charges and to waive the penal charges already levied but not collected as on 4th February 1987.

To weaken the farmers' agitation, in 1985 AIADMK decided to give free power to small farmers who owned less than 5 acres of dry land or 2.5 acres of wet land. A flat rate was also initiated for all other farmers at an annual charge of Rs. 50 per HP. This scheme found partial success. TNEB started collecting BPSC from the other farmers, which kick-started the agitation once more. During the interim period, the farmers had also petitioned the government for an order to provide them with free power. However, M.G. Ramachandran died in December 1987 resulting in no action being taken on the petition

In 1989, the AIADMK Government was dismissed from power due to various reasons, and President's Rule was imposed. With election being announced in 1989, political parties realising that electricity had become an important election issue starting including it in their election manifesto. Election analysis and demographic data show that a majority of Tamil Nadu's agricultural belt—Coimbatore, the Cauvery Delta Basin region, Theni, etc.—voted for DMK.<sup>17,18</sup> DMK emerged as the winner of the elections held and was in power between 1989 and 1991. DMK's election manifesto is reproduced below:<sup>19</sup>

“The interest payment for the late payment fees given by the farmers will be completely cancelled. In addition to this, problems such as charging electricity for the irrigation pumpsets were still not addressed and hence will be addressed immediately.

The pumpsets and other equipments used by the farmers to which at present sales tax is collected will be completely cancelled.

Free electricity to farmers for the first time in the country.”

A government order was issued in 1990 to provide free electricity to the pumps operated for agricultural purposes.<sup>20</sup>

From a TNEB perspective, the reasoning behind supporting the provision of free power may have been that it made sense in financial terms, as the cost of collecting revenue was greater than the cost of power. However, this approach would reflect a lack of understanding of the true cost of supply.<sup>21</sup> As a retired deputy financial controller put it:

“Until 1988 all the consumers including agricultural consumers were metered and their consumption was charged. I assume they were charged 50 paise/unit and it would be minimum Rs.5 per month as fixed charges. Meter reading involves a systematic assessment and collection method and the cost of collecting the revenue was around Rs. 15 per month. Hence it was observed by someone working in the utility that the

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<sup>17</sup> Statistical Report on General Election, 1989, to the Legislative Assembly of Tamil Nadu, [http://eci.nic.in/eci\\_main/StatisticalReports/SE\\_1989/StatisticalReportTamilNadu89.pdf](http://eci.nic.in/eci_main/StatisticalReports/SE_1989/StatisticalReportTamilNadu89.pdf).

<sup>18</sup> Tamil Nadu legislative election map, 1989, [https://upload.wikimedia.org/wikipedia/commons/e/e4/1989\\_tamil\\_nadu\\_legislative\\_election\\_map.png](https://upload.wikimedia.org/wikipedia/commons/e/e4/1989_tamil_nadu_legislative_election_map.png).

<sup>19</sup> DMK Election Manifesto, 1989.

<sup>20</sup> DMK, Electricity Achievements, <http://dmk.in/11/Electricity-/achivements/achivements-details>.

<sup>21</sup> The exercise of arriving at an approximate cost of supply was made

cost of collecting the revenue was greater than the revenue generated from the agricultural consumers and therefore pitched in the idea of free power to farmers.”<sup>22</sup>

Further, the 1990 Government Order amended the 1985 order and removed the differentiation between “small farmers” and “other farmers” and substituted the categories with “no charge”. This also contributed to the revenue deficit and skewed the subsidy mechanism in 1990s, creating a skewed incentive for farmers to use pumpsets larger than what they actually needed: As a retired deputy financial controller put it:

“In those days, a 3 HP pump was most common, which was used by the small farmers; medium farmers used 5 HP and larger farmers used pumps that were greater than 5 HP. The size of the land and the ownership issues like name transfer to the next generation had a series of procedures which actually posed further problems to revenue collection for electricity use. There was hence confusion and difficulties in categorizing the farmers as small, medium or large, and the government did not get any money. In such a situation as there was no proper monitoring of this segment of consumers, and because of sheer negligence the farmers used bigger pumpsets that led to over exploitation of groundwater. The Electricity Board did not give official permission to use higher level of pump size to extract groundwater. Farmers used larger pumps illegally. Because of this, the data on subsidies given to the agricultural consumers was not authenticated.”

The Government Order had a twofold effect on the electricity sector. First, the removal of categories meant that all farmers, either small scale or large land owners, had access to the subsidy. The second, more important effect was that the Order failed to define the term “agriculture” and what constituted agricultural activities.

The lack of definition had a far-reaching consequence on the sector. Sectors connected with agriculture sought to avail themselves of the subsidy, and various consumer categories started approaching the Government, regulator and courts over various time periods. Taking two examples:

In the case of Maheshwari Fish Seed Farm vs. Tamil Nadu Electricity Board in April 2004, there was an instance of fish farmers approaching the Supreme Court of India arguing to be made eligible for the subsidy. Their contention was that “they were engaged in fish farming, i.e. pisciculture, which is only a species of agriculture and therefore they were also entitled to the benefit of notification dated 19.11.1990.” The Tamil Nadu Electricity Board they were fish farmers and engaged in pisciculture which could not be treated as agriculture.

In this case, the Court noted that the 1990 Tariff Schedule had removed the categorisation and the word “agriculture” was not defined. As a result, the High Court sought to clarify the definition by going into dictionary definition of “agriculture”. It held that “the mere fact that an activity has some connection with or is in some way dependent on land is not sufficient to bring it within the scope of the term and such extension of the term ‘agriculture’ is unwarranted.” By doing so, the Supreme Court did not include pisciculture as part of agriculture and defined the boundary for the agriculture subsidy scheme.

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<sup>22</sup> Interview with retired TNEB official.

The second and a more successful case in 2003 concerned lift irrigation societies who were essentially part of the HT consumers and were categorised as HT Power Supply for agriculturists and wanted to instead receive a subsidy under the agricultural free power scheme.<sup>23</sup> In *T.N. Sivasubramanian vs. TNEB*, decided by TNERC, the petitioner, a member of the Legislative Assembly, wanted the commission to “declare free supply of Electricity for their Agriculture on par with the Low Tension Power Supply Service Connection”. The logic was that members of the Society are also LT agriculturists receiving the subsidy, which created a different priority system, hence requiring parity through free power. TNERC did not agree and dismissed the petition by stating: “Lift Irrigation Societies who are HT consumers having a long duration of supply cannot be equated with LT agricultural consumers who get restricted supply.”

Between 1991 and 1994, the AIADMK Government was voted into power; although their election manifesto did not give a specific mandate for power sector subsidies, it did suggest favorable treatment of industry:

“The private sector too will be permitted to generate power. Schemes will be drawn up to eliminate the power shortage in our state. By producing more electricity, the scope for new industries will be improved. Industries will be supplied with power at concessional rates.”<sup>24</sup>

The AIADMK also sought to widen the definition of “agriculture” by bring more sectors like poultry, sericulture and dairying into the broad heading of agriculture in its election manifesto, thus enhancing its scope. This put additional financial pressure on the utility.

The logic of the cost of collecting revenue was greater than revenue received was also applied to huts. The Tamil Nadu Government started a scheme in 1970 to provide rural housing under various names in village panchayats and special grade panchayats, as well as houses constructed under the Jawahar Velai Vaiippu Thittam (Jawahar Employment Opportunity) and TAHDCO Kamarajar Adi Dravidar housing schemes. Each hut (up to 200 square feet) would have a single light bulb not exceeding 40 watts per hut. In 2006, when the DMK government launched a program to distribute free colour TVs, the load was progressively increased to 110 watts.<sup>25</sup>

During the time period, the price collected from the huts was Rs. 5 per month. During the mid-1990s, the same logic of supply of free power given for agriculture was applied to huts, i.e. the cost of collecting revenue was greater than revenue received.<sup>26</sup> Interestingly, it also appears to have led to administrative decisions in giving out electricity subsidy to defined areas rather than providing a lump-sum amount to TNEB for the foregone revenue: e.g., Rs. 81 lakhs was disbursed as electricity subsidy to Samathuvapuram or social non-discriminatory housing infrastructure schemes.<sup>27,28</sup> Towards the end of

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<sup>23</sup> TNERC, Tariff Review Petition No. 1/2003.

<sup>24</sup> AIADMK Election Manifesto, 1991.

<sup>25</sup> Government of Tamil Nadu, Amendment to the Schedule to the Tamil Nadu Revision of Tariff Rates on Supply of Electrical Energy Act, 1978, Notification, <http://cms.tn.gov.in/sites/default/files/gos/energy3-e.pdf>.

<sup>26</sup> Telephone interview with deputy financial controller.

<sup>27</sup> To promote social justice and spread Thanthai Periyar’s message of social equality, a housing scheme known as Samathuvapuram was launched by the Government of Tamil Nadu in 1997-98. Under the scheme, model housing is built in rural areas and all residents of the housing share basic infrastructure and amenities without discrimination. See: [http://tnrd.gov.in/schemes/st\\_samathuvapuram.html](http://tnrd.gov.in/schemes/st_samathuvapuram.html).

Residents under the scheme received free power; see [http://www.tnrd.gov.in/State\\_Schemes/linkfiles/go\\_adw\\_124\\_98\\_pg403.pdf](http://www.tnrd.gov.in/State_Schemes/linkfiles/go_adw_124_98_pg403.pdf).

<sup>28</sup> Tamil Nadu 11<sup>th</sup> Legislative Assembly Review, 1991-1996, [http://www.assembly.tn.gov.in/archive/10th\\_1991/10threview\\_91\\_96.pdf](http://www.assembly.tn.gov.in/archive/10th_1991/10threview_91_96.pdf).

the AIADMK Government (1996), the electricity borrowing limit of TNEB was limited to Rs. 3500 crores.<sup>29</sup> This status quo appears to have continued until the next government came to power.

The Government of Tamil Nadu in 1992 had started resorting to financing TNEB to keep the return on investment at 3 percent on the net worth “to partially cover the cost of concessional supply and this was causing considerable strain to the state’s finance”. Further, the Government had started discussions with the farmers groups to levy charges on agriculture.<sup>30</sup> But the discussions were not successful.

Between 1996 and 2001, the DMK Government was voted into power. Their election manifesto again focused on the farmers’ category:

“In the next five years, additional 3 Lakh pumpsets to small farmers with free electricity will be extended. Those farmers who are ready to pay the cost for getting electricity connection will be given priority for electricity access.”<sup>31</sup>

The tariff order of 2000 highlights largely the unchanging nature of the subsidy regime with no charge for huts and the agriculture sector.<sup>32</sup> However, on further analysis of the tariff order, sugarcane crushing, which is an allied agricultural activity, has been given a separate category within the tariff order. The tariff for sugarcane crushing is kept at “no charge”, hence subsidised by the government.<sup>33</sup>

On analysis, it is seen that between 1996 and 2000, sugarcane farmers and sugar mills were dealing with a bumper harvest in Tamil Nadu. Sugarcane at the time had a high share in the state’s agricultural mix, with the percentage of land under sugarcane cultivation increasing year on year.<sup>34</sup> This has resulted in an oversupply of sugarcane, leading to lowering of the price in the open market.<sup>35,36</sup> This was debated in the Legislative Assembly, where Tamil Nadu’s agriculture minister stated that farmers were being affected for not increasing in the sugarcane price.<sup>37</sup> In support, in 1996 a report on “Co-operative Sugar Mills” had also stated that the government should examine the feasibility of increasing the sugarcane price in Tamil Nadu.<sup>38</sup> Given this particular situation, free power was given to sugarcane crushers, enabling them to make a profit. As per the Budget Speech of 2001-02, the revenue deficit during the last five years was Rs. 3000 crores.<sup>39</sup>

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<sup>29</sup> 11<sup>th</sup> Legislative Assembly Review.

<sup>30</sup> Government of India Planning Commission, Summary Record of Discussions of the National Development Council (NDC) Meetings, [http://planningcommission.nic.in/reports/genrep/50NDCs/vol5\\_45to50.pdf](http://planningcommission.nic.in/reports/genrep/50NDCs/vol5_45to50.pdf).

<sup>31</sup> DMK Election Manifesto, 1996.

<sup>32</sup> Government of Tamil Nadu, Amendment to the Schedule to the Tamil Nadu Revision of Tariff Rates on Supply of Electrical Energy Act, 1978, Notification.

<sup>33</sup> “A round-up from States,” *Frontline*, February 2, 2001, <http://www.frontline.in/static/html/fl1802/18020130.htm>.

<sup>34</sup> Government of India Ministry of Food & Consumer Affairs, Report of the High Powered Committee on Sugar Industry, Volume 1, April 1998, <http://dfpd.nic.in/writereaddata/images/pdf/sugar/Mahajan1.pdf>.

<sup>35</sup> Government of India Planning Commission, Statewise Estimates of Value of Output From Agriculture and Allied Activities With New Base-Year 1999-2000 (1999-2000 to 2005-06), [http://planningcommission.gov.in/sectors/agri\\_html/State-wise%20Estimates%20of%20Value%20of%20Output%20from%20Agriculture.pdf](http://planningcommission.gov.in/sectors/agri_html/State-wise%20Estimates%20of%20Value%20of%20Output%20from%20Agriculture.pdf).

<sup>36</sup> There were significant increases in Karnataka and Tamil Nadu, as a result of which production increased 8.7 percent (from 117.5 million tonnes in 1996-97 to 127.8 million tonnes during 1997-98) in the tropical zone.

See Reports of the Commission for Agricultural Costs and Prices for the Crops Sown During 2001-2001 Season, <http://cacp.dacnet.nic.in/ViewReports.aspx?Input=2&PageId=63&KeyId=342>.

<sup>37</sup> Tamil Nadu 10<sup>th</sup> Legislative Assembly Review, 1996-2001, [http://www.assembly.tn.gov.in/archive/11th\\_1996/Review-1996.pdf](http://www.assembly.tn.gov.in/archive/11th_1996/Review-1996.pdf).

<sup>38</sup> 11<sup>th</sup> Legislative Assembly Review.

<sup>39</sup> C. Ponnaiyan, Tamil Nadu Minister of Finance, Presentation of Revised 2001-02 Budget.

## TNERC and Expanding Subsidy Categories: 2001-2016

Between 2001 and 2006, the AIADMK Government was voted into power. The losses to TNEB on account of free and subsidised power during the current financial year were expected to be Rs. 4938 crores.<sup>40</sup> Their election manifesto does not reveal any significant change from the previous approach. But two significant events took place: First, the TNERC was established in 1999 and began its formal operations in 2002, with regulatory and tariff orders being issued on various aspects, and second, in 2003 the Electricity Act was passed.<sup>41</sup> The latter is more significant as it established a regulatory process of determining tariff for utilities. Although TNERC was set up, it should be noted that the Government of Tamil Nadu continued to set the tariff schedule, until 2000, for all consumer categories.<sup>42</sup>

The Electricity Act 2003 mandated that tariff hearings be held through a participatory approach by taking into account stakeholders' comments. The mode determined by TNERC is public hearings and written comments. Further, the Electricity Act states that the level of subsidies will be determined by regulatory commissions. The public hearings provided a venue for electricity consumers to advocate for subsidies for their particular consumer category. As a result, four subsidy based consumer categories were identified—domestic, professional service attached to residents, places of worship and powerloom.

In 2003, the first tariff order was determined by TNERC, and the various stakeholders came forward seeking subsidies. The tariff determination process helped document their consensus on tariff rates across consumer categories. Importantly, the first tariff hearing gave the opportunity for certain consumer categories to be recognised as a subsidy category. On the other hand, TNERC was of the view that there should be a rationalisation of tariffs by reducing the number of categories “to simplify the administration of the tariff and reduce the confusion in the minds of the consumers.” This had a future implication on the subsidy regime of the sector as several consumer categories who were previously availing subsidies under the agriculture category were re-categorised and charged in the new tariff order.<sup>43</sup>

First, it gave a voice to several domestic consumers, who termed themselves as “the middle class”, objecting to the increase in tariff as “after an increase was effected just a year back”. Politically, it gave a recognition that domestic consumers are an important vote bank and needed to fall within the subsidy regime. For example, the president of the Citizens Association for Rights & Duties, Chennai, demanded re-categorising domestic consumers based on a consumption-based tariff structure—advocating for a slab-based (a categorization based on usage ranges or units consumed) subsidy mechanism.<sup>44</sup>

Their efforts to lobby proved successful, and as a result, the Government of Tamil Nadu in 2004 through a policy directive started providing subsidy for domestic consumers by reducing the electricity tariff for

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<sup>40</sup> Ibid.

<sup>41</sup> Government of Tamil Nadu, Establishment of Tamil Nadu State Electricity Regulatory Commission, 1999, <http://cms.tn.gov.in/sites/default/files/gos/energy58-e.pdf>.

<sup>42</sup> Government of Tamil Nadu, Amendment to the Schedule to the Tamil Nadu Revision of Tariff Rates on Supply of Electrical Energy Act, 1978, Notification.

<sup>43</sup> TNEC, TP-1 : Tariff Order, Chapter 7: Tariff Details, p. 166, <http://tnerc.tn.nic.in/tarorder/chapter7.pdf>

<sup>44</sup> Another interesting example is the Army advocating for free power. They viewed themselves not as a commercial category but advocated themselves as a licensee. The reason given was that “Military Engineering Services have their own transmission and distribution systems, thereby reducing the burden on TNEB”.

See TNEC, TP-1 : Tariff Order, Chapter 2: Issue-Wise Summary of Objections, TNEB Response and Commission Rulings, <http://tnerc.tn.nic.in/tarorder/chapter2.pdf>.

domestic consumers. An amount of Rs. 910 crores was given.<sup>45</sup> The election manifesto of AIADMK for 2006-11 states free power to domestic consumers as one of the major achievements of their term for 2001-06.

Another category, places of worship, sought lowering of tariffs and suggested the implementation of slab rates similar to low-tension consumers. However, their views were not taken into account by TNERC at the tariff hearing.

But in January 2006, just before the elections, the places of worship consumer category got subsidies in their favour. This was not a policy order but decided via a regulatory petition: “Extending tariff concession for places of public worship chargeable under LT Tariff II-C, with income above Rs. 1000 per annum”, filed by the Hindu Religious and Charitable Endowments (HR & CE) Department. As per the petition, Government of Tamil Nadu had a policy for providing free power for places of worship with an annual income below Rs. 1000 per annum. Aside from that, this petition sought to extend the benefits of the policy to 30,000 places of workshop with income above Rs. 1000 per annum.

HR & CE are controllers of 38,403 places of worship, out of which about 30,000 are in the low-income and no income category while 16,256 have an annual income of Rs. 10,000- and above; the remaining places of worship can be assumed to fall under the annual income of below Rs. 1,000.<sup>46</sup> According to HR & CE, the electricity bills are the third highest expenditure at Rs. 3 per unit. From the statements, it appears they do not have the means to do temple rituals even once a day, nor pay the staff. Based on the request, “a concessional tariff of Rs 1.50 per unit may be ordered for the electricity consumed by the temples having an income of Rs 10000 and below per annum”. TNEB acceded to the request, with commitment letters given by the Government of Tamil Nadu. Based on consumption estimates, TNEB estimated the loss to be Rs. 3.64 crores. It divides the temples into two parts: a) 30,000 places of worship with an annual income of Rs. 10,000 and below with monthly consumption of 60 units per month and b) 16,256 of places of worship with an income of more than Rs. 10,000 and having consumption of more than 60 units. Further, the existing free power for places of worship with an annual income below Rs. 1000 per annum will continue.

Another aspect that worked in the favour of consumer categories were that legal and regulatory reasoning carried more weight than administrative reasoning. For example, other categories of consumers that benefited by getting the reallocation of tariff from the commercial category to domestic categories were the small medical clinics and dispensaries attached to residences. They were now charged at domestic tariffs. This was in line with Bombay High Court and Supreme Court rulings of 1962 and 2005.<sup>47,48</sup> The ruling stated that these premises are not commercial establishments, as the relationship of the work and factors such as leave, etc., do not fall into a fixed time. The Commission extended the same argument to lawyers, chartered accountants, and goldsmiths who are providing professional services in a single room in their residential premises.<sup>49</sup>

The industrial categories who gave their comments to the tariffs petition were handloom and power loom cloth manufacturers, who stated that their industry was going through a distressing phase.

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<sup>45</sup> Tamil Nadu Government Portal, “Tamil Nadu Electricity Board”, [http://cms.tn.gov.in/sites/default/files/documents/energy2004-05\\_1.pdf](http://cms.tn.gov.in/sites/default/files/documents/energy2004-05_1.pdf).

<sup>46</sup> TNERC, Order No. T.O. 1-70, 2006, Extending tariff concession for places of public worship chargeable under LT Tariff II-C, with income above Rs.1000/- per annum, <http://tnerc.tn.nic.in/Orders/TO70TEMPLETARIFF.pdf>.

<sup>47</sup> Supreme Court of India, 2005, <https://indiankanoon.org/doc/962390/>.

<sup>48</sup> Bombay High Court, 1962, <https://indiankanoon.org/doc/457272/>.

<sup>49</sup> Bombay High Court, 1968, <http://judis.nic.in/supremecourt/imgst.aspx?filename=2049>.

Essentially, handloom and powerloom manufacturers are weavers who belong to very small-scale industries. There are about 4 lakh handloom weavers' families consuming around 100 units of power bimonthly.<sup>50</sup> They produce traditional dress materials, for which there has been diminishing demand over the years. To help the industry, the Government of Tamil Nadu set up a government cooperative to promote handlooms, which procured dress materials under the Janata Cloth Scheme. Cooptex also provides yarn to societies for the production of Janata cloth. Cooptex then markets the materials to the public, though most are distributed to the poor during the Pongal festival.<sup>51</sup> Following this, additional stocks are purchased from the weavers, thus sustaining their livelihood.

In 2002, the weaver sector was in distress as the Government of Tamil Nadu decided to stop the Janata Cloth Scheme. In addition to that, there were delays in making payments for the weavers for materials purchased, interest on loans, etc., making the scheme unfeasible. Further, the weavers who were also farmers during the lean season were also affected by severe drought conditions.

Their main contention was categorisation of “preparatory industries of power loom such as winding, twisting and warping processes under LT Tariff III-A (1) category”, to be bundled and more to a single category to lessen their burden while claiming subsidies. They claimed enhancement of permitted load of powerlooms from 10 HP to 15 HP.

In February 2006, just before the elections in June, the AIADMK government gave policy directions to TNERC to extend tariff concessions to powerloom sector by cutting down the rate per unit for the first 500 units by 40 percent.<sup>52</sup>

With regard to the free power for farmers, several farmers and associations contended that it should be continued because “...this is the only subsidy that goes to the farmer without any intermediate stages and with no slip between the cup and the lip.”<sup>53</sup> Further, they also contended that groundwater was available at a depth of 50 to 70 feet in Punjab, but in Tamil 200 to 1000 feet in Tamil Nadu. The subsidy regime continued for the agricultural category.

However, a State Advisory Committee Member, TNERC, Mr. Sundaram, agriculturist, advocated for separate tariffs to be determined for agricultural services using compressor motors. He also suggested that agricultural connections should be classified on it connected load and “farmers having less than 5 HP connected load should be given free supply”.<sup>54</sup> This suggestion has its origins in the 1990 tariff schedule that seeks to categorize farmers based on their connected load.

In 2006, the DMK Government came to power with a broad pro-poor mandate and created two new consumer categories: agricultural connection on a priority basis and weavers.

“In addition to our promise that the DMK Government will continue the free electricity scheme, be assured that the scheme will be expanded to those who got electricity connection by paying special fees on a priority basis.”

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<sup>50</sup> TNERC, Order No. T.O. 1-90, 2006, Provision of Tariff subsidy to provide free electricity to agricultural consumers under SFS, Handloom consumers and powerloom consumers, <http://tnerc.tn.nic.in/Orders/TO90.pdf>.

<sup>51</sup> “Weavers in Distress”, *Frontline*, August 2002, <http://www.frontline.in/static/html/fl1917/19171250.htm>.

<sup>52</sup> TNERC, Order No. T.O. 1-81, 2006, Provision of Tariff subsidy for the year 2006-07 by the Government of Tamil Nadu towards Domestic, Agricultural, Hut, Actual Places of Public Worship and powerloom consumers, <http://tnerc.tn.nic.in/Orders/TO81.pdf>.

<sup>53</sup> TNEC, TP-1 : Tariff Order, Chapter 2: Issue-Wise Summary of Objections, TNEB Response and Commission Rulings, p. 26.

<sup>54</sup> TNEC, TP-1 : Tariff Order, Chapter 2: Issue-Wise Summary of Objections, TNEB Response and Commission Rulings, p. 30.

Further as per their manifesto, DMK stated that “free electricity will be extended to the weavers in addition to the farmers”. This is in line with the situation facing weavers and measures taken by the previous AIADMK government and the large vote bank of 4 lakh weavers.

Based on the Manifesto, the Energy Department Policy Note 2007-08 intimated the policy changes and added the categories to the subsidy scheme. The Policy Note extended free power of 100 units bimonthly to handloom weavers having their own workshed, 500 units bi-monthly to powerloom weavers, and free power to 2.4 lakhs agricultural consumers. In addition a target of bringing normal category agricultural consumers under the free power scheme was fixed.<sup>55</sup> The TNERC, in its “Provision of tariff subsidy to provide free electricity to agricultural consumers under SFS, handloom consumers and powerloom consumers”, made subsequent subsidy provisions in the amount of Rs. 64.14 Crores for 2006-07 for the consumer categories.<sup>56</sup> In 2007-08, the total subsidy payable by the Government of Tamil Nadu all this consumer categories was around Rs. 1412 crores. The handloom and powerloom consumers have other important benefits to sustain the industry e.g. family pension scheme, health insurance scheme etc.<sup>57</sup>

It was during this time that the free electricity scheme first took socioeconomic and natural resources dimensions. It helped formulate categories of consumers within the priority scheme to avail free power. The priority agricultural connection was linked to the Central Government and state-sponsored schemes and small-scale industrial schemes aimed at economic and social development of the backward regions.

For example, free power was given to members of Scheduled Caste/Scheduled Tribes who were beneficiaries under the centrally sponsored Jeevan Dhara Scheme (1992-93), later merged with Swarnajayanti Gram Swarozgar Yojana.<sup>58</sup> The Jeevan Dhara Scheme aimed at giving 100 percent financial assistance for construction of open irrigation wells. Following this, pumpsets were given to them through loans availed through the banks connected through Integrated Rural Development Programme. This category was included in the free power scheme.

In terms of economic and natural resources conservation, the free electricity scheme also extended farmers who installed micro-irrigation systems. Additional priority was given to small and marginal farmer clusters “who jointly set up, own and manage the common irrigation systems using micro-irrigation technology”.<sup>59</sup>

From a political perspective, agricultural connections were extended to sitting lawmakers for the land owned by them “only one time”.<sup>60</sup>

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<sup>55</sup> Energy Department, Demand No. 14, Policy Note, [http://cms.tn.gov.in/sites/default/files/documents/energy\\_2\\_0.pdf](http://cms.tn.gov.in/sites/default/files/documents/energy_2_0.pdf).

<sup>56</sup> TNERC, Order No. T.O. 1-90. 2006, Provision of Tariff subsidy to provide free electricity to agricultural consumers under SFS, Handloom consumers and powerloom consumers, <http://tnerc.tn.nic.in/Orders/TO90.pdf>.

<sup>57</sup> Government of Tamil Nadu, Schemes for Handlooms, Handicrafts, Textiles and Khadi, [http://www.tn.gov.in/scheme/department\\_wise/10](http://www.tn.gov.in/scheme/department_wise/10).

<sup>58</sup> Government of Madhya Pradesh, Annual Plan: 2002-03, <http://mpplanningcommission.gov.in/annualplan/2002-03/chapter6.htm>

<sup>59</sup> Tamil Nadu Fiscal Incentives, Exemption & Subsidies, [http://www.fisme.org.in/export\\_schemes/IP-High/Row%2027/27H.pdf](http://www.fisme.org.in/export_schemes/IP-High/Row%2027/27H.pdf).

<sup>60</sup> The forms reveal that for example, backward castes, widows, ex-servicemen, Scheduled Tribes, and Intercaste Married people will be also given priority power. See Procedure for Getting Agricultural Service Connection, <http://www.tangedco.gov.in/linkpdf/Agri%20-Form.pdf>.

In 2010, TNERC issued the Second Tariff Order. In its tariff determination, its overall approach was marked by accommodating strategy of a) enabling and fitting consumers into different categories, b) creation of new consumer categories, and c) using load factors as the basis for subsidies.

It should be noted that there were oppositions to the subsidy for agriculture and particularly sought to differentiate the subsidy between poor and rich farmers. These oppositions had no visible effect on the subsidy regime. According to one of the statements recorded by TNERC:

Subsidy should be given to economically backward people and not to the affluent people. Twenty percent of rich landlords enjoy 80 percent of free electricity and 80 percent of poor agriculturists cannot access even the balance of 20 percent electricity. It is to be decided as to whom the increase should be given. (Page 14)

In the tariff hearings, there was also a shift in strategy by various consumer groups, for example, the consumers lobbied for changing their categories from higher to lower tariff schedules e.g. hospitals run by charitable trust. Their reasoning was that they offered “totally free treatment for all categories of patients”. This was granted by TNERC:

Hospitals run by charitable trust which offers totally free treatment for all categories of patients is treated on par with government hospitals and classified under LT Tariff II B (1)

There was also a closer alignment of certain sectors to the subsidised sector, such as braided cotton manufacturers being associated with the powerloom sector. The Braided Cords Association, under the advice and recommendation of the Tamil Nadu Chamber of Commerce in Madurai, stated that their industry was being charged under cottage and tiny industries from 2003 and should instead get the reduced powerloom tariff.<sup>61</sup> TNERC agreed to the alignment and made them part of the reduced category.<sup>62</sup>

In the 2010 tariff order, fish culture was given a separate consumer category as it was rapidly becoming a sub-sector within the agricultural sector wherein agriculturists were rearing fish by pumping water from agriculture services.<sup>63</sup> It is seen that they were subject to fines by TNERC, as fish culture within farming was considered to be an illegal activity. TNERC allowed the activity and linked the concessional tariffs on the basis of load of the electrical equipment used for the purpose.

The logic was extended to horticulture and mushroom farmers. The newly created categories were allowed under the low-tension tariff (LT Tariff III A-1) for services with connected load below 10 HP and LT Tariff III B for services with connected load of more than 10 HP.<sup>64</sup>

The reasoning behind the new categorisation and defining concessional tariff for new categories of consumers may be seen through the regulatory case Jagdale Farms vs. TNEB of 2005.<sup>65</sup> In this case, a

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<sup>61</sup> TNERC, Order No. 3 of 2010, Determination of tariff for generation, intra-State transmission and distribution, p. 24, <http://tnerc.tn.nic.in/orders/Tariff%20Order%202009/2010/Tariff%20Order%203%20of%202010.pdf>.

<sup>62</sup> <http://tnerc.tn.nic.in/orders/Tariff%20Order%202009/2010/Tariff%20Order%203%20of%202010.pdf>TNERC, Order No. 3 of 2010, p. 213.

<sup>63</sup> TNERC, Order No. 3 of 2010.

<sup>64</sup> Tamil Nadu Government Portal, “Tamil Nadu Electricity Board”.

<sup>65</sup> TNERC, M.P. No. 11 of 2004, <http://tnerc.tn.nic.in/orders/commn%20order/2005/M.P.%20No.11%20of%202004.pdf>.

horticulture farm, growing mango, grapes, banana, coconut, etc., was billed as a low-tension industrial activity, paying under the said category from 1982. TNEB suddenly changed the tariff category commercial tariff, thereby attracting a higher tariff. In this case, it was highlighted that a new tariff categorisation should be in place for horticulture farms, in line with Andhra Pradesh and Karnataka states. TNERC at that time declined to give a separate category for horticulture farm and stated that during the next tariff hearing this will be considered.<sup>66</sup> The 2012 TNERC tariff order subsequently extended the agricultural subsidy to horticulture farmers.

In November 2010, the TNEB was bifurcated into two separate entities, Tamil Nadu Generation and Distribution Company (TANGEDCO), taking care of generation and distribution, and Tamil Nadu Transmission Company (TANTRANSCO), owning and managing transmission infrastructure.

In May 2011, the AIADMK government was voted to power. But from 2011 onwards, Tamil Nadu experienced a demand-supply deficit of around 3500 MW which led to regular electricity cuts and was affecting all categories of consumers.<sup>67,68</sup> Elaborate restrictions and control or load shedding measures were in place by TANGEDCO.<sup>69</sup> By now subsidies and other aspects have led the TNEB and successor entities to report accumulated losses of around Rs. 50,000 crores as of 2012.<sup>70</sup> Also around this time, electricity cuts had also become a major issue along with corruption allegations against the previous DMK government.<sup>71</sup>

The AIADMK Manifesto reflected the situation.

“Immediate action will be taken to provide reliable electricity to domestic, industry, and agriculture consumers. After coming to power, AIADMK will start to implement effective plans towards this.”<sup>72</sup>

Within this context, the overriding concerns were bridging the supply gap deficit and bringing about financial viability of the utility. As a result, the TANGEDCO sought to increase the tariffs for all categories of consumers. This was reflected in the tariff orders issued by TNERC in 2012, 2013, and 2014, respectively.

The defining factor of the 2012 tariff order was to further expand the scope of agriculture by bringing all agricultural and allied activities under the agricultural tariff category.<sup>73</sup> The effect of this order was that it

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<sup>66</sup> it is open to the Petitioner to represent his case during the next public hearing to be held for the tariff revision/tariff classification. The Commission also will consider this point during the tariff classification and categorization, which is under the consideration of the Commission. See TNERC, M.P. No. 11 of 2004.

<sup>67</sup> Government of India, “Energy Department”, [http://cms.tn.gov.in/sites/default/files/documents/energy\\_6\\_0.pdf](http://cms.tn.gov.in/sites/default/files/documents/energy_6_0.pdf)

<sup>68</sup> B. Sivakumar, “2001-2011; How Tamil Nadu lost the power race”, *Times of India*, October 19, 2012, <http://timesofindia.indiatimes.com/city/chennai/2001-2011-How-Tamil-Nadu-lost-the-power-race/articleshow/16873572.cms>

<sup>69</sup> TANGEDCO, Memo No. CE/Comml/EE/DSM/F. Power Cut/D. 39/2012, <http://www.tangedco.gov.in/linkpdf/sln01.pdf>

<sup>70</sup> TNERC, Order No. 1 of 2012, Determination of Tariff for Generation and Distribution, p. 6, <http://tnerc.tn.nic.in/orders/Tariff%20Order%202009/2012/T.O%20No.%201%20of%202012%20dated%2030-03-2012.pdf>

<sup>71</sup> T.S. Subramanian, “Groping in the dark”, *Frontline*, November 2, 2012, <http://www.frontline.in/static/html/fl2921/stories/20121102292112800.htm>

<sup>72</sup> AIADMK Election Manifesto [in Tamil], <http://www.slideshare.net/PattabiRaman1/aiadmk-election-manifesto-tamil-nadu-state>

<sup>73</sup> TNERC, Order No. 1 of 2012, pp. 335-336. “This tariff is applicable for pumping of water/supply of water to all agricultural and allied activities, such as cultivation of food crops, vegetables, seeds, trees and other plants. Sericulture, floriculture, horticulture, mushroom cultivation, cattle farming, poultry and other bird farming, fish/prawn culture carried out as allied activities of agriculture shall be construed as agricultural activities.”

effectively brought all services within the agricultural subsidy regime. The reasons for the expansion of the scope were three fold.

Firstly, the lack of definition on what constitutes agriculture and its allied activities was not given by TNERC.

Secondly, this led to the TANGEDCO determining that any business activity other than farming being carried out on a farm was illegal and was booked under theft of electricity. As a result, farmers were imposed penalties for using the agricultural water for animal husbandry, sericulture etc.

“The ex-service men squad employed by TANGEDCO have booked farmers maintaining cows and goats in their agricultural field under the theft of energy, which should not be done as Government also gives free cows and goats to the farmers.”<sup>74</sup>

Thirdly, several consumer categories, such as poultry farmers of Nammakal District, who were receiving agricultural subsidy prior to 2003, were now being charged commercial tariff. They demanded to:

“provide free service under tariff IV for the Poultry farms which have poultry upto 25,000 nos. Issue clear instructions to TANGEDCO to not levy charges under theft of energy charges and compensation for the services who use agricultural pumpset for feeding the poultry.”

Given the above disparities, TNERC expanded the scope of agricultural services by effectively expanding its definition.

“This tariff is applicable for pumping of water/supply of water to all agricultural and allied activities such as cultivation of food crops, vegetables, seeds, trees and other plants. Sericulture, floriculture, horticulture, mushroom cultivation, cattle farming, poultry and other bird farming, fish/prawn culture carried out as allied activities of agriculture shall be construed as agricultural activities.”

The poultry farmers were also given provision for increasing their “lighting loads up to 50 watts per 1000 watts of power connected subject to a maximum of 150 watts inclusive of wattage of pilot lamps.”<sup>75</sup>

Although the tariff was increased in 2012, this did not help the revenue deficit, as the revenue gap was Rs. 34,503.32 crore at the time of unbundling in 2010. In 2012, the revenue inflow due to increase in tariff was Rs. 9,741.01 crore while uncovered deficit was still Rs. 24,762.31 crore.<sup>76</sup>

In the 2013 Tariff Order, the scope of agricultural services was again further expanded and also brought more agricultural activities within the subsidy regime. This included, “milking, sugar cane crushing,

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<sup>74</sup> TNERC, Order No. 1 of 2012, p. 30.

<sup>75</sup> “Poultry farmers welcome TNERC’s move”, *The Hindu*, April 5, 2012, <http://www.thehindu.com/todays-paper/tp-national/tp-tamilnadu/poultry-farmers-welcome-tnercs-move/article3282810.ece>

<sup>76</sup> TNERC, Order No. 1 of 2012. “2.1.442 After the date of unbundling i.e., with effect from 01-11-2010 and up to the end of this control period i.e. up to 31-3-2013, the proposed revenue gap is Rs. 34503.32 Crore. Out of this the proposal of TANGEDCO is to raise additional revenue to the extent of Rs. 9,741.01 Crore by raising the tariff. The uncovered deficit is still Rs. 24762.31 Crore.”

harvesting, stalk/chaff cutting, thrashing and cleaning of agricultural produces, crane used for lifting mud/silt from well by having a change over switch as approved and sealed by the licensee”.<sup>77</sup>

As a result of expansion scope of agricultural activities, the subsidy amount increased from Rs. 289 crores in 2011–12 to Rs. 2,500 crores in the year 2013–14.<sup>78,79</sup>

In terms of cumulative revenue deficit between 2010 and 2014, the revenue supply gap increased from Rs. 4,145 crores to Rs. 25,464 crores in 2014.<sup>80</sup>

**Table 6: Revenue Account for FY 2010-22 to FY 2013-14 (Rs. Cr)**

Parameter	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Opening	0	4,145	13,514	20,270
Additions (Revenue gap approved by the Commission)	4,050	8,398	4,898	3,711
Add: Interest Expenses	95	971	1,858	2,515
Less: Amortized regulatory asset				1,033
<b>Closing</b>	<b>4,145</b>	<b>13,514</b>	<b>20,270</b>	<b>25,464</b>

In the tariff hearings, the domestic consumers, during this phase, advocated against the tariff hike and sought to maintain the existing tariff while lobbying for further categorisation and concessional tariffs to protect their interests. Their strategy under this phase consisted of combination of technical and economic reasoning. TNERC recognised this strategy and shifted the onus of categorisation on to the distribution licensee or consumer advocating through submission of necessary information such as data on consumer and consumption pattern.<sup>81</sup>

One interesting feature of the 2012 tariff hearings was more based on the consumer category distinction within them. For example, domestic consumers sought to differentiate among themselves in by stating “Air conditioner users and UPS users should pay additional security deposit” while they also sought distinction in relation to status such as “Separate tariff may be given for the State Government and Central Government employees.”

It is also seen that TANGEDCO also played its part in creating a consumer category for the health sector in spite of its financial situation. One consumer category that was supported by TANGEDCO was the “private educational institutions which run for free of cost for special purpose (mentally retarded and physically handicapped)”. According to TANGEDCO, “they alone deserve concessional and separate tariff

<sup>77</sup> TNERC, T.P. No. 1 of 2013,

<http://tnerc.tn.nic.in/orders/Tariff%20Order%202009/2013/TANGEDCO%20ORDER/T.P.%20No.%201%20of%202013%20dated%2020-06-2013.pdf>

<sup>78</sup> TNERC, Order No. T.O. 3-5, Provision of Tariff Subsidy for the year 2011-12 by the Government of Tamil Nadu, 2011, <http://tnerc.tn.nic.in/orders/Tariff%20Order%202009/2011/TO-3-5%20dated%2016-05-2011.pdf>

<sup>79</sup> TNERC, Order No. T.O. 2, Provision of Tariff Subsidy for the year 2013-14 by the Government of Tamil Nadu, 2013, <http://tnerc.tn.nic.in/orders/Tariff%20Order%202009/2013/T.O%202-24-07-2013-Subsidy%20Order%20for%202013-14.pdf>

<sup>80</sup> TNERC, Order No. 9 of 2014, Suo-Motu Determination of Tariff for Generation and Distribution, p. 255, <http://www.tnerc.gov.in/orders/Tariff%20Order%202009/2014/Tariff%20Order/TANGEDCO/Tariff%20Order%209%20of%202014-TANGEDCO.pdf>

<sup>81</sup> TNERC, Order No. 1 of 2012, p. 91 ; T.P. No. 1 of 2012, p. 67.

as they run “rehabilitation center for mentally ill which offers totally free treatment”.<sup>82</sup> TNERC extended the tariff for the above category and also created to other closely allied categories such as Leprosy Sub-Centers, Public Libraries and Libraries run at free of cost by trusts, research institutes etc.<sup>83</sup>

The 2014 tariff order was a suo-moto tariff order wherein TNERC brought out the tariff order out of its own accord. This suo-moto action was initiated because the utility failed to file an application for determination of Tariff. According to the dissenting order given by a TNERC Member, the non-filing by TANGEDCO has violated a statutory requirement of the Act. The effect of the above is that TNERC without knowing the utilities’ data, TNERC arrived at abstract values.<sup>84</sup> This had an effect on the subsidy regime as without data TNERC was unable to understand the implications that subsidies or shifting of consumer categories will have on the tariff order. According to the dissenting order, “draft order with the assumed data/ determinants is purely arbitrary and it is not legally valid”.

In May 2016, the AIADMK Government was again voted to power. The main highlight of the Election Manifesto is the 100 units of free electricity to domestic consumers. Following this, the Government has started giving subsidies. This is purely a political move, and the total subsidy stands at Rs. 8,484 crores with revenue deficit were around Rs.8,542 crores during 2015- 16.<sup>8586</sup>

## Conclusion

The electricity subsidy narrative of Tamil Nadu does not follow a simple pattern of vote bank politics. Electricity subsidy has been seen as a tool for social and economic development both by the government and regulators. This has essentially been captured by the political parties for their opportunistic purposes. This is seen in every case of subsidy being given—the farmers’ protest over electricity hikes led to free power, the plight of the weavers required free power, court cases had an impact on giving shifting of tariff to medical clinics, status of places of worship required free power, middle class discontent at every tariff hearing pushed the political parties to ensure free power.

Further, subsidies also take shape in different forms: Free power or fully subsidised, partial subsidy or concessional rates based on the amount of load required, shifting of tariff categories from higher to lower and creation of new consumer categories are some of the ways in which subsidy regimes are prevalent.

Within the framework of electricity governance, subsidies are seen as a quick-fix solution in the light of a particular situation. The regulatory role is increasingly crucial in dictating the subsidy regime and improving the financial viability of the sector. As seen throughout the narrative, regulators have allowed for greater subsidies than the government or political party. Essentially, whenever regulators have given consideration to a particular category of consumers it has been due to technical, economic, or judicial reasoning. For example, the widening of the definition of agriculture ensured that more consumers would be part of the subsidy scheme. It pushed up the subsidy amount ten times over than previous

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<sup>82</sup> TNERC, Order No. 1 of 2012, p. 59.

<sup>83</sup> TNERC, Order No. 1 of 2012, p. 330.

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<sup>84</sup> There are at least 102 formats to be furnished by the licensee as per the Tariff Regulations 2005 of the Commission to arrive at the abstract figures of ARR. See TNERC, Order No. 9 of 2014.

<sup>85</sup> Government of Tamil Nadu Energy Department, Policy Note 2016-2017, Demand No. 14, [http://cms.tn.gov.in/sites/default/files/documents/energy\\_e\\_pn\\_2016\\_17.pdf](http://cms.tn.gov.in/sites/default/files/documents/energy_e_pn_2016_17.pdf)

<sup>86</sup> TNERC, Order No. 6 of 2016, Provision of Tariff Subsidy for FY2016-27 by the Government of Tamil Nadu, <http://tnerc.tn.nic.in/orders/Tariff%20Order%202009/2016/SUBSIDY%20ORDER%202016-17.pdf>

years. Medical clinics were given domestic tariff due to a Supreme Court judgment that would not have been possible in an administrative setting.

The Tamil Nadu experience highlights that subsidies have become entrenched in policy and regulatory decision-making. Further, subsidies have to be considered in the light of the participatory approach taken in electricity regulatory governance. This will become more pronounced as more consumer categories enter into the picture demanding their rights for concessional tariffs. The level of participation will in the future dictate the directions in which regulatory decisions are taken, effectively leading to consumer-led regulation. As more and more consumer categories participate, subsidy-based regimes, as viewed in totality, will only seek to increase through greater intra-consumer differentiation and categorisation. This holds an important lesson for policymakers: Subsidy regimes should be defined early on and consumer categorisation should be fixed to enable financial viability of utilities.