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Power: Who subsidises whom?

A rational power tariff must be related to cost as per efficiency norms, not actuals, says **Dr Uttam Gupta**

THE National Development Council (NDC) committee on power has recommended the extreme step of abolishing the so-called subsidised supply of electricity for household consumption and progressive elimination of other types of subsidies e.g. agriculture.

From the NDC one would have expected a "holistic" approach to the problems of the power sector and not just an abrupt and ill-informed decision which would invite the wrath of the beleaguered common man. The issue is too complicated for a simplistic solution of the type recommended.

For an ordinary household, the present tariff is on a slab system i.e. Rs 0.60 for consumption upto 100 kwh per month, Rs 1.00 for 100-200 kwh Rs 1.80 for 200-300 kwh and Rs 2.40 for 300 kwh and above. On an average basis and provided billing is done strictly following the slab system, a household consuming 200 units per month lands up paying an effective rate of 80 paise per unit.

But, this is rarely the situation. In majority of the cases, the customer gets billed at the rate corresponding to the highest slab, as meter reading is taken once in four months or even longer. Except for a handful of alert consumers, in an overwhelming number of cases, consumers land up paying at a much higher rate than warranted.

Another anomaly relates to what in technical jargon is termed as temporary electricity. Providing electricity on a permanent basis requires setting up of the necessary infrastructure which may take some time. Invariably, a period of one year is provided from the date the user deposits the requisite amount with the concerned authorities.

The actual time taken in providing the permanent connection may be even longer. During this period, the user has to pay an exorbitant rate of Rs 4.5 per unit to begin with, which is jacked up with every three months delay in getting permanent connection by way of levying surcharge. Residents with temporary connections in Delhi are even paying at the rat of Rs 6.50 per kwh which is much more than even the commercial rate paid for industrial activities. All because DESU is unable to provide the permanent connection for one reason or the other.

It would appear that there is a slab rate even for temporary electricity even though higher than the normal. But that is only of academic value, as DESU conspicuously makes arrangements to install only a single metre for the entire housing society on the ostensible logic of administrative convenience.

Whereas these facts are drawn from a metropolitan city like Delhi, the ground reality in other parts of the country is no different and would perhaps, be even worse. The cost of generation and distribution of power is something that is considered sacrosanct. Invariably, in all presentations by the government, this is compared with the rate charged to the household to bring out the extent of subsidy. The question is: Why is the former not subject to rigorous scrutiny?

Power is a highly capital intensive industry with capital servicing charges accounting for a major proportion of the total generation and distribution cost. In this context, barring a few newly commissioned units, a predominant share of the power supply is from plants that are old and depreciated and where the cost should have been much lower if only it is computed on standard norms as is being done in other capital intensive industries like fertilisers.

The substantially higher generation cost for majority of the SEBs despite the negligible burden of servicing the original plant and machinery speaks volumes about the low PLF, unjustifiably high overhead cost, including surplus manpower and generally higher levels of inefficiencies in operations.

But for this, and if only the SEBs are made to run strictly as per reasonable efficiency norms, the cost of providing electricity to the users would not be higher than the tariffs proposed to be charged and perhaps, even lower than what is de facto billed and paid by majority of the households.

Against this backdrop, the suggestion of the NDC Committee to abolish subsidy on supply to the households is completely out of line with the facts. On the contrary, there is indeed a strong case for directing and forcing the Boards to correct the anomalies in the billing to prevent inflated burden on the users. For the Boards to infer from the Committee's recommendation that they could increase the tariff already in force even further, would be totally unwarranted and unjustified.

Undoubtedly, agriculture which constitutes about 26 per cent of the total electricity consumption, is getting subsidy (25 paise per unit) even when cost of generation and transmission are computed after adjusting for the inefficiency of the Boards. The NDC Committee recommendation on this i.e. to first implement the decision taken at the power minister's conference in January, 1993 to be followed by gradual elimination of subsidy is quite appropriate.

It is however, important that the reference point for the purpose of the so-called unsubsidised pricing has to be the cost of generation and distribution to be allowed as per the efficiency norms and not the actuals. A related consideration is that while we increase the cost of power to the farmers based on reasonable norms of cost, parallel efforts are required to ensure that the latter realise a remunerative price for their farm output which is presently far from being the position.

An area which need urgent attention and where precisely the epicentre of Boards financial problems is located, is the improper billing, in terms of both the rates and consumption, to a large number of industrial users and unprecedented transmission and distribution losses, both technical and by way of pilferage.

The loss to the Boards on this score would far outweigh the consequential loss due to subsidised supply of power to agriculture. Under such circumstances and unless the former is effectively addressed, even if the subsidy on the latter is completely abolished, it would be virtually impossible to pull the SEBs from the red.

These problems cannot be addressed by retaining the present highly bureaucratised management structure of the Boards. The Committee has recommended disinvestment of government's holding in the SEBs. As an immediate step, this will not work as there would simply be no takers for their equities.

What is required is to improve the collections, stop unauthorised use and pilferage of electricity and ultimately help financial recovery of the SEBs. Privatisation of the distribution and billing functions could be an option. At that stage, the government may disinvest and use the proceeds for revamping and modernisation of the plants.

An ideal situation would be for the government to ultimately permit majority shareholding to the private companies to introduce both accountability and professional management.