Editorial

21 September, 2002

THE HINDU BUSINESS LINE

Power reforms: Shed populism for success

Uttam Gupta

RECENTLY, Mr Suresh Prabhu, the man whose name had virtually become synonymous with reforms in the power sector, had to resign as Union Minister of Power. Does this mean a setback to the reforms as perceived in some quarters? Before we seek an answer to this, there is an urgent need to address an even more important question? Has the Government, so far, carried out any meaningful reforms?

In the entire chain of power generation, transmission and distribution in India, the State electricity boards (SEBs) occupy a pivotal position. Besides generating power on their own, they buy electricity from the central power utilities, namely, NTPC, NHPC, and so on, and sell it to the consumers. The SEBs also buy power generated at the plants owned and operated by the independent power producers (IPP).

The SEBs are important to the financial institutions (FIs) and commercial banks as well. In the context of processing the loan applications of the IPPs, the latter have to keep a close watch on health of the former. This is absolutely essential as under the existing system, the IPP can sell power only to the SEB. And, if, the SEB is in bad shape, this will affect servicing of the loan.

The majority of the SEBs in India are in dire financial straits. They cannot pay their bills out of current revenues. This has been going on for years, resulting in the build up of huge liabilities. As on March 31, 2001, they owed a staggering sum of about Rs 40,000 crore (Rs 25,000 crore principal, and Rs 15,000 crore interest and surcharge) to NTPC, CIL, other PSUs and the Railways.

The reasons for the mess in the SEBs are well-known. However, there are two fundamental factors contributing to the persisting imbalance between their revenue and expenditure:

- Huge transmission and distribution losses (this includes large-scale theft) and;
- Supply of power to the farmers at heavily subsidised rates or even free.

The Government has signed MOUs with 14 State governments so far under which the latter have been promised relief/incentives in exchange for achieving certain 'milestones'. The relief package has been worked out based on the recommendations of Dr Montek Singh Ahulwalia Committee. The Committee had recommended waiver of 50 per cent of the surcharge and interest payment (Rs 7,500 crore) as a one-time settlement. For the principal amount and balance 50 per cent of interest and surcharge (Rs 32,500 crore), it recommended issue of 10-year tax-free bonds by State governments.

The package will hardly provide any relief to the central power utilities and other PSUs. They will incur a loss of Rs 7,500 crore as the Government is unlikely to foot the bill for the waiver of 50 per cent of interest and charge. As for the bonds worth Rs 32,500 crore, this will merely dress up their balance-sheets. These will be of very little use in improving their cash flows.

Even though bonds can be traded in the secondary market, central utilities are allowed to sell only 10 per cent of these every year. This works out to only Rs 3,250 crore per annum. Moreover, given the extremely poor perception of state bonds, it is most unlikely that they will be able to raise even this meagre amount. Even financial institutions will be reluctant to give them loans against these bonds.

It may be recalled that in 1997, the Government had issued 'oil bonds' to the oil companies to extinguish the liabilities under the Oil Pool Account (OPA). In view of the sovereign guarantee attached to these bonds, the oil companies did not have much to worry about. In the present case, however, the guarantee of the State governments, many of whom are in financial distress, will be of little help.

The package provides for redemption of power bonds 'six' years from the date of issue. Till then, Central utilities have no other option but to merely sit over these. What about servicing of these bonds? The interest alone is about Rs 2,760 crore per annum (@ 8.5 per cent). In the 2001-02 Budget, the Government had proposed a corpus of Rs 2,000 crore to provide assistance to States for servicing the bonds. This amount does not cover interest even for one year!

The States can service the bonds only if the SEBs generate enough cash after making payments for current bills in full. This in turn, will be possible only if the Government makes a dent on the twin problems of reducing T&D losses and woefully inadequate realisation from supply to farmers. This would require putting pressure on SEBs to implement the necessary steps. Is this being done?

Notwithstanding the milestones listed in the MOU, there is little motivation for SEBs to improve. The dues to the Central utilities being a liability of SEBs, they should have been made to issue the bonds. Under the scheme however, the State governments will be issuing the bonds. Against this backdrop, why would the SEBs care?

In the past, the Government has been deducting a maximum of up to 15 per cent of the Central Plan assistance to the States to pay for their dues to Central utilities. This has failed to improve the SEBs. Now, the Centre has decided to make deduction without any ceiling. Moreover, the cut will be applied to non-Plan assistance, States' share in Central taxes and grants as well. As in the past, this by itself, will not reform SEBs.

Contemplate a scenario in which the SEBs remain in a mess. Then, the bulk of the transfers from the Centre to the States would have been used up for clearing their liabilities to central PSUs. This would be tantamount to punishing the hospitals, educational institutions and other essential services and developmental activities for the omissions and commissions of SEBs!

For almost a decade, the authorities have been preoccupied with the enactment of legislation, setting up of regulatory commissions, restructuring of SEBs, privatisation, and so on. All this has failed to produce the desired results. In fact, in several States, where the SEBs were doing well at the beginning of the 1990s, the situation has deteriorated over the years.

According to a Planning Commission study, the ratio of realisation from the sale of power to the cost of supply during 1992-93 was 94.2 per cent in Andhra Pradesh, 96.5 per cent in Karnataka, 98.5 per cent in Maharashtra and 84 per cent in Madhya Pradesh. During 2001-02, this was significantly lower at 61.7 per cent, 65.6 per cent, 75.5 per cent and 75.2 per cent respectively.

The sole reason for the continuing mess in the power sector is the lack of political will. Thus, a decision taken by the National Development Council (NDC) several years ago for charging a minimum of 50 paise per unit from the farmers, is yet to be implemented by a number of states. Some of them, such as Punjab, continue to supply electricity to the farmers free of charge.

Recently, the Kerala Government increased the power tariff to reduce the gap between the realisation and the average cost of supply (despite this, the KSEB would have incurred a loss of about Rs 100 crore per month). However, thanks to opposition from various quarters, the hike has been rolled back! Other measures to stem the rot have also been put on hold.

Likewise, the States have not been able to muster up the courage required to completely eliminate T&D losses. For instance, last year, in a Paper submitted to Electricity Regulatory Commission, the Delhi Government conceded that it was unable to control power theft. Even the private companies, which have recently taken over distribution, face an uphill task for obvious reasons.

The Government will not be able to clear the mess in the power sector if the 'will' to set things right is missing. The powers that be should shed 'populism' and get cracking to make all users pay for the power they consume at reasonable rates. This goal should be vigorously pursued irrespective of who is at the helm.

(The author is Additional Director-Economics, Fertiliser Association of India, New Delhi. The views expressed are personal.)