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The power fiasco

The government needs to spell out concrete measures on core issues rather than peripherals, says Uttam Gupta

MORE than three and a half years have passed since power generation was thrown open to the private sector, including foreign companies. And yet, not even a single mega watt of additional capacity has been added. Nor is there is chance of any new project likely to be commissioned in the next two years.

Though a power project involves a minimum gestation period of about 2-3 years, what is worrisome is that for none of the projects financial closure has been announced. This means that no project is ready to be taken up for implementation — not even the eight on "fast track" which were cleared by the cabinet committee on foreign investment.

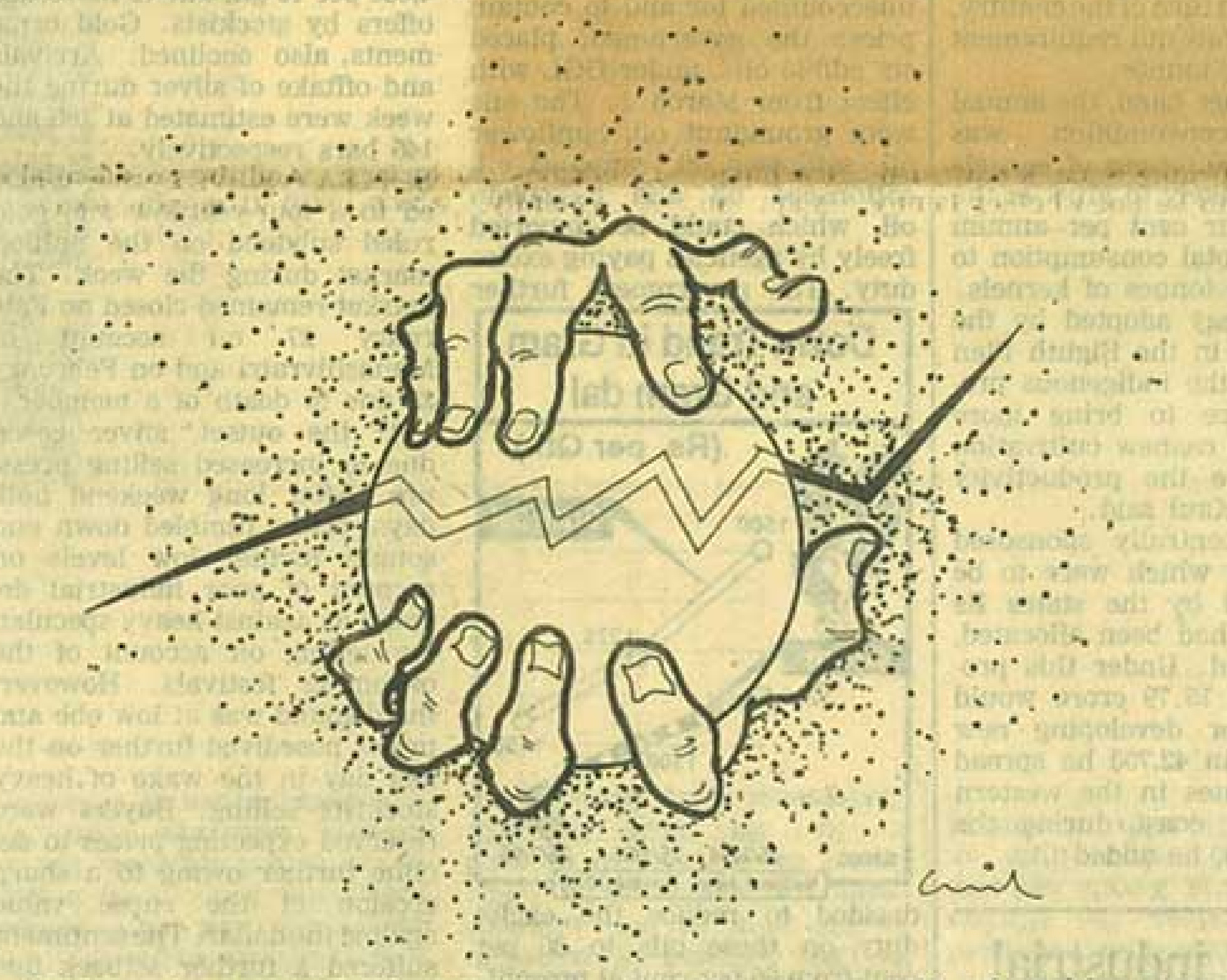
Except Enron (Dabhol) and AES Corporation (Ib valley in Orissa) which have been provided counter guarantee (CG), the fate of the remaining six hangs in balance on this score. CG will not be easy to come as, on the one hand, the government proposes to consider each case on its merits and, on the other, vacillates on the need for CG as such.

Long and protracted negotiations with individual MNCs were totally unnecessary. We, in India, have to decide on what terms to get the foreign investment. These should have been announced along with the decision to open up. After all, MNCs' primary concern is what the government actually does and not with what it intends to do.

Second, it is well known that the SEBs, who will be the bulk buyers of electricity from private generators, are financially weak, most of them being in the red. They can't pay for the power that they buy, nor the state governments are in a position to pay on their behalf. Even the Centre cannot, except by printing currency on a monumental scale. And yet, we have spent too much time on trying to convince the MNCs that India will not default on making payments and that too without much success. This much time could have been utilised for dealing with the fundamental causes that have made the SEBs financially bankrupt.

A third major source of delay is that as many as 30 clearances are reportedly required for setting up of a power project. Besides the CCFI, the central electricity authority (CEA) and the environment ministry also come into the picture. One promoter which approached the CEA for clearance was told to get a techno-economic feasibility from the FIs; the latter wanted the promoter to bring a certificate from the CEA before his request could be entertained.

The recently issued guidelines to the states including competitive bidding, have made matters even worse. Although, the deals already finalised on the basis of MOUs are allowed to go through, it is bound to put the clock back in several others which are in a fairly advanced stage of negotiations on the non-biding route.



Bidding is a standard procedure followed all over. Some state governments were already following it much earlier. It is also not clear whether the ministry has made the document standardising the bidding procedure has been made available to the states.

Yet another source of delay is the Centre's directive requiring the states to secure legally enforceable agreements for supply of fuel and its transportation on a sustainable basis from the fuel supplying organisations and the railways respectively. This brings in the picture various administrative ministries, each one of them having cumbersome procedures for committing supplies of the fuels and arrangements for movement.

Too much preoccupation with the private sector has also led to the neglect of the PSUs like the NTPC, which have the capability to expand, set up fresh capacity at a lower cost. Apart from the discrimination, the massive outstanding dues from the SEBs have also impaired the PSUs' finances and, in turn, their capability to undertake expansion and modernisation programmes.

The consequent demoralisation has led to unprecedented exodus of talent from the PSUs. Unless the trend is corrected, in the long run we may even run the risk of not being able to sustain the existing 70,000 mw capacity not to talk of making any significant addition to generation.

At the moment, the focus should be to set the house in order. Once accomplished, necessary investment and increase in capacity will follow automatically. As a first step, the government should come out with a credible and transparent package at one go and undertake a pledge not to tinker with it. Transparency and stability of the policy package is much more important than even the attractiveness of the return.

Second, the GOI should take a clear cut stand that no counter guarantee will be provided to any generator. This is because the national exchequer cannot afford it. The argument that any payment towards counter guarantee will be deducted from the plan/non-plan allocation to the states contributed by the GOI would only go to create an impossible situation. Moreover, majority of the SEBs are running in losses as against a minimum stipulated return of 3 per cent.

Let the generator face the situation and take a decision based on his risk perception'. To the extent that the alternatives to counter guarantee e.g., linking the generator directly to the high tension consumers or the contemplated mechanism of escrow account can satisfy him, such arrangements should be encouraged.

Third, the SEBs must be restructured by doing away with bureaucratic and political controls. Only professionals should be allowed to run them with full delegation of decision making powers. The Boards should also enabled to start on a clean slate free from the past encumbrances.

Fourth, apart from expansion and modernisation of existing plants for improving their PLF, the restructured Boards should also focus on suitable tie-ups with the private generator in an integrated manner. It may enter into a power purchase agreement with the generator. Alternatively, it can offer its transmission and distribution infrastructure to the private party and collect a wheeling charge.

Fourth, there should be a nodal authority with representatives from the concerned ministries i.e. petroleum and natural gas, coal, railways, to facilitate speedy finalisation of the contracts for supply.

Fifth, liberalisation of distribution and transmission of power is a prerequisite. Much of the SEB's financial problems arise because of improper billing and losses in a state controlled set up. In this context, the Meghalaya government's reported move to hand over distribution and transmission of power to a consortium of UK-based companies deserves to be emulated by other states.

Improvement in the power situation ultimately depends on the clarity of what the government offers and whether it will stick to this and above all make things work. There is an urgent need for a clear cut, stable and non-discriminatory power policy, an implementation machinery that believes more in delegation of powers of decision making and strong and restructured SEBs which work like any other business enterprise.