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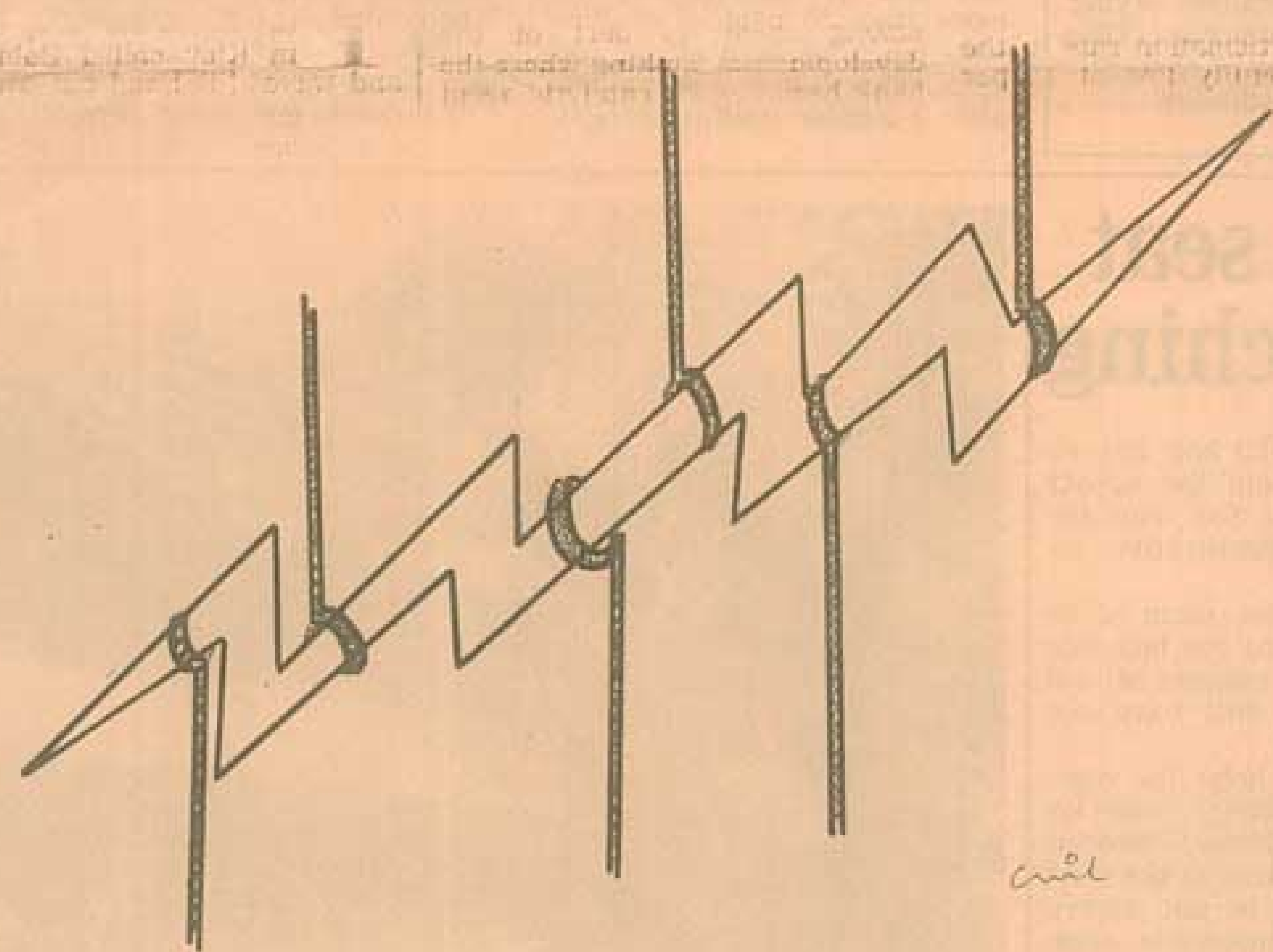
Let there be light

Unless the SEBs are reformed, the power situation cannot improve, says **Uttam Gupta**

THE consequences of the SEBs' financial bankruptcy are now beginning to show up in full form. Multinational power companies, for one, are either insisting on foolproof arrangements to ensure that their investment in India is safe, i.e through counter-guarantees, or are yet to be convinced that they would be able to realise value for the electricity they sell. The government is wooing them with various mechanisms like direct selling of power to industrial consumers or power-purchase agreements with Power Grid Corp without much success. The reasons are not difficult to seek.

Industrial users represent only a part of the total demand and it is impossible to support plant operations at economically optimum levels merely on this basis. One will necessarily have to sell power to other categories of users. The power-purchase agreement (PPA) does not help much as Power Grid Corp, in turn, will have to realise money from the SEBs and cannot afford to remain without a counter-guarantee from the government if it has to meet its obligations to the generator under the PPA. So you are back to square one.



Two, domestic power companies predominantly in the public sector are now getting worked up; their demand for a level playing field vis-a-vis the MNCs in setting up of fresh capacity cannot be ignored any longer. Whether it is the NTPC or NHPC, they will not even contemplate new investments unless they too are given counter-guarantees. But, what is worse is that the viability of even their existing operations is getting threatened because the SEBs do not pay. Reportedly, the NHPC has outstanding arrears of about Rs 600 crore. Likewise, the NTPC has to recover huge amounts from the SEBs. Very often, these power corporations threaten stoppage of further supplies; this temporarily results in some payments but the problem stays.

Three, even the suppliers of equipment to the SEBs have not remained unaffected. The BHEL has outstanding arrears of a whopping Rs 1,000 crore from the SEBs. Not only does this jeopardise it's profitability and cash flows, it seriously constrains its ability to expand business and bag fresh orders against tough competition. In highly-contested international biddings, the foreign suppliers bag orders for domestic power plants mainly on the strength of suppliers' credit which BHEL is unable to match. It is indeed unfortunate that this giant which successfully sells equipment abroad is not able to do so on home territory simply because the government-owned buyers of electricity cannot be disciplined.

All this makes for a catastrophic situation ahead. Foreign investment will not come in until the payments issue is satisfactorily resolved. Domestic power utilities will remain demoralised ad totally unenthusiastic so long as their recoveries from SEBs do not improve. Investment in revamping, replacement and modernisation of the plants is no less important. For this, finances of the NTPC/NHPC have to be in good shape. The SEBs' bankruptcy will lead to sickness even in these well-functioning corporations. The imminent adverse effect on other enterprises like BHEL too is not ruled out.

The course that the government has chosen purportedly to allay the apprehensions of foreign investors and domestic power companies is disastrous. The fulcrum of the Centre's strategy is, if SEBs or the state governments on their behalf, are unable to pay, it make arrangements to ensure that the generator realises all his dues. The Centre seems to be banking on its ability to make suitable cuts from states' plan assistance or pay from the consolidated fund.

When it does so in the case of a foreign company or a domestic private generator, the same dispensation will have to be applied in respect of supplies of power from NTPC/NHPC. Using the same logic, why not extend this arrangement to BHEL. Indeed, this is precisely the suggestion in a note prepared by the department of heavy industries for consideration by the cabinet. Sooner than later, even ONGC/GAIL and other oil companies too would like to avail of this dispensation if the dues of NTPC to them start mounting. But, will a state's entitlement to plan assistance from the Centre be enough to accommodate these demands? Even assuming that this is so, will a drastic cut be acceptable to the concerned state? What will happen to its developmental activity? Clearly, an impossible situation.

The consolidated fund too is no Aladdin's lamp that can pay for any amount of financial liabilities that are bound to be thrown up by invocation of counter-guarantees. In any case, the Centre's own finances are in such dire straits that it can't think of discharging these liabilities except by printing currency or by borrowing at market-determined interest rates. Don't forget, in the context its fiscal stabilisation programme, it has pledged to keep both under control.

Does that mean that there is no way out of the current morass?

Reform of the SEBs is an absolute necessity if the government is really sincere about attracting foreign companies, and inducing domestic utilities to help in improving the power situation. Outright privatisation is meaningless. No private company will evince interest in buying a SEB unless a clear picture about assets and liabilities is available.

The reforming exercise must begin with bringing up-to-the state of finances of the SEBs. Teams of independent professionals should carry out this task. They should also identify various problematic spots and areas of weaknesses and measures for corrective action. Simultaneously, the government should hive off the boards as independent entities and under the charge of professional managers. The management should have full powers to take all decisions. It should also have the mandate to shed the excess staff. Suitable capital restructuring may be necessary to enable the newly-constituted boards to start on a clean slate.

As a second step, the work relating to power sale, distribution and collection of dues should be hived off to a private agency on a contract basis. Redundancies of staff in these departments may be a problem area; but maybe many can be remployed by the private agency. Under a new management, there is reason to expect that they would work and deliver results.

We should also aim at converting the boards into full-fledged undertakings with provision for progressive unloading of government equity in stages. The money fetched from disinvestment can be used for modernising and upgrading the generating units and, at the same time, help in making operations more efficient and profitable by injecting an element of accountability.

The proposed changes are not difficult to bring about. It only requires a certain degree of commitment and sincerity of purpose. A rejuvenated and strong SEB alone will be the best guarantee against possible default in payment. Guarantees by the state governments or counter-guarantees by the Government of India must be avoided at any cost.