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Power procrastination

The government has kept the private sector busy on the negotiating table for too long, says **Uttam Gupta**

BARELY three years after the Indian power sector was opened to private sector, including investment by foreign companies, an impression is gaining ground that the latter has not responded favourably. And, based on this, a major reorientation in approach to development of this important infrastructural industry seems to be taking shape.

While power companies (both generating and equipment suppliers) in the public sector — NTPC, NAPC and BHEL, among others — have asserted their ability to take up the challenge, the power minister has emphasised the virtues of heavy investment already made in the state sector with low cost funding from the government and multilateral and bilateral sources.

All that may sound impressive but the fact remains that only a few years back the government emphatically stated that government funding for expansion was impossible. It had made it clear that but for the support of the private sector, including MNCs, augmenting generation capacity was not possible. It even decided to give extraordinary incentives to foreign companies, to the point of even shielding them from commercial risk. Indeed, Mr Salve went to the extent of observing that there was no backing out on counter-guarantees.

It is difficult to believe that things could change overnight. What is it that was not known then and has now suddenly come to light? Accumulated losses of SEBs have long ago eroded their net worth/capital base. While any significant increase in the worth on revaluation of the assets or market capitalisation is a distant dream, it would be commendable if only sale of their assets, including plant and machinery, would fully pay for their liabilities. The PLF of a majority of the SEBs continues to be abysmally low, leading to higher cost of generation per unit, notwithstanding fully depreciated plant and machinery. Rationalisation of tariff, including elimination of subsidies to agriculture, has been on the cards for long but no steps have been taken in this direction.

There has been virtually no improvement in these fundamentals even as losses of SEBs continue to mount, no increase in the the PLF national average and even the increase in power tariff for agriculture from the existing 17 paise per kwh to a minumum of 50 paise per kwh as recommended by the power ministers' conference last year remains unimplemented.

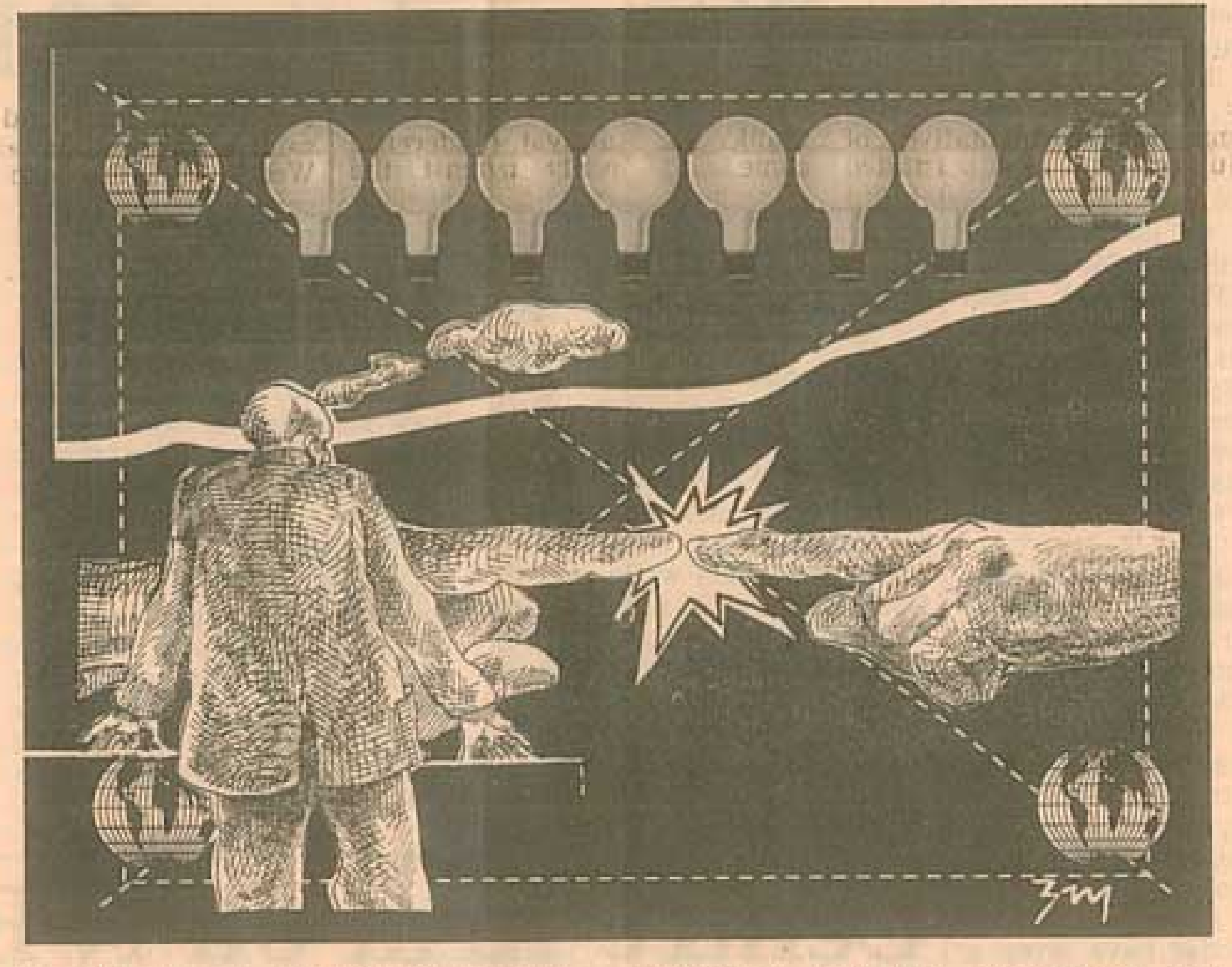
There is simply no possibility, within the existing dispensation, of even the better off SEBs taking up implementation of new power projects. It is not merely a funding problem. Recent estimates suggest that a staggering Rs 27,000-crore-worth of foreign assistance meant for investment in the power sector remains unutilised. The problem is really one of lack of professionally managed, independent boards and an effective implementation machinery. Even the much better managed, efficient and profit-making government undertakings like NTPC face problems not only for taking up new projects for implementation but also in meeting their working capital requirements.

Presently, SEBs owe NTPC about Rs 3,000 crore, undermining its capacity to successfully execute its expansion and modernisation plans. The much-talked about World Bank loan of US $1.2 billion, which NTPC desperately needed, was not released for long mainly because it could not conform to the recovery norm envisaged by the bank. NTPC is not willing to go ahead with implementation of projects in various states, involving a total capacity of about 4000 MW, unless the state governments undertake to provide payment guarantees.

The view that the private sector has not responded favourably and that, at best, only two or three gas-based power plants would be commissioned by the end of the Eighth five year plan, is an oversimplification. Instead of jumping to premature conclusions, we need to find out why things have not worked out as desired. After all, despite having extracted the most favourable terms, why should the MNCs delay? The predominant reason is that the government has kept them busy on the negotiating table for too long.

The issues of return, guarantee by the state government, counter-guarantee by the Government of India, arbitration, repatriation of profits and capital in foreign exchange, arrangements for supply of fuel — all involve coordinated decision and the time taken to hammer them out is inordinately long and unpardonable, particularly keeping in view the urgency of creating additional capacity for meeting the growing demand. Even now, one does not see the end of the tunnel.

A comprehensive note incorporating the terms to be offered to foreign investors under the PPA is yet to be put up by the power ministry before the CCEA for a final view on the broad policy to be taken.



Meanwhile, there have been indications that each case would be evaluated on its own merits. That the special dispensation made to Enron would not necessarily be applied to others, has only diluted the enthusiasm of prospective investors. With this background, it would be erroneous to conclude that the new-found love for the private sector did not have much substance. And what is worse is the self-adulation that we are capable of the task, ignoring the fundamental weaknesses which are not hidden either from the foreign companies or from IMF and the World Bank.

The problem is neither with the foreign companies nor with the domestic utility companies in the state sector. It is mainly on account of the approach adopted by the government which not only sits in judgement on both, but also, provides the policy framework. Whereas foreign companies are under no obligation and and can easily adopt a "take it or leave it" approach, the state undertakings have no option but to accept what the government allows.

Recently the former APSEB chairman laid the blame for mismanagement and inefficiency in the SEBs squarely on the constant intervention by the government in their working. The boards are owned and administered directly by the concerned state governments. They are an attached department, not even an independent corporation unlike a PSU which is managed by an independent board of directors.

The issue we are facing today is not whether the public power utilities in the country can do a better job or MNCs or the latter in a joint venture arrangement with a domestic private company. The magnitude of the task involved calls for supplementing the effort of both. If BHEL has the necessary expertise (this is beyond doubt) and can set up 200 or 400 MW plants at a cost lower than that promised by the MNCs, there is no reason why the former should not be allowed matching incentives in returns and guarantee of payments. The problems and issues that face the domestic power utilities and the MNC are common and they need to be addressed through a uniform policy and administrative dispensation.