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The power muddle

Encouraging private investment in the power sector should not lead to private monopoly, says **Uttam Gupta**

POWER problems are endemic to the Indian economy. All along, industries have been suffering from inadequate availability of power, frequent cuts, voltage fluctuations causing loss of production, profitability and even damage to equipment.

At the same time the supplying organisations, primarily the State Electricity Boards (SEB), are in the red. The economic survey for 1993-94 puts the cumulative losses of all SEBs at a staggering Rs 6000 crore. And, this is despite steep increases in the tariffs resorted to by SEBs from time to time.

With the initiation of economic reforms three years back, the government decided to allow private sector participation in the generation and distribution of power. As it is, the zig-zag with regard to even the basic contours of the policy has resulted in loss of precious time with very few proposals for investment, including foreign investment, taking shape.

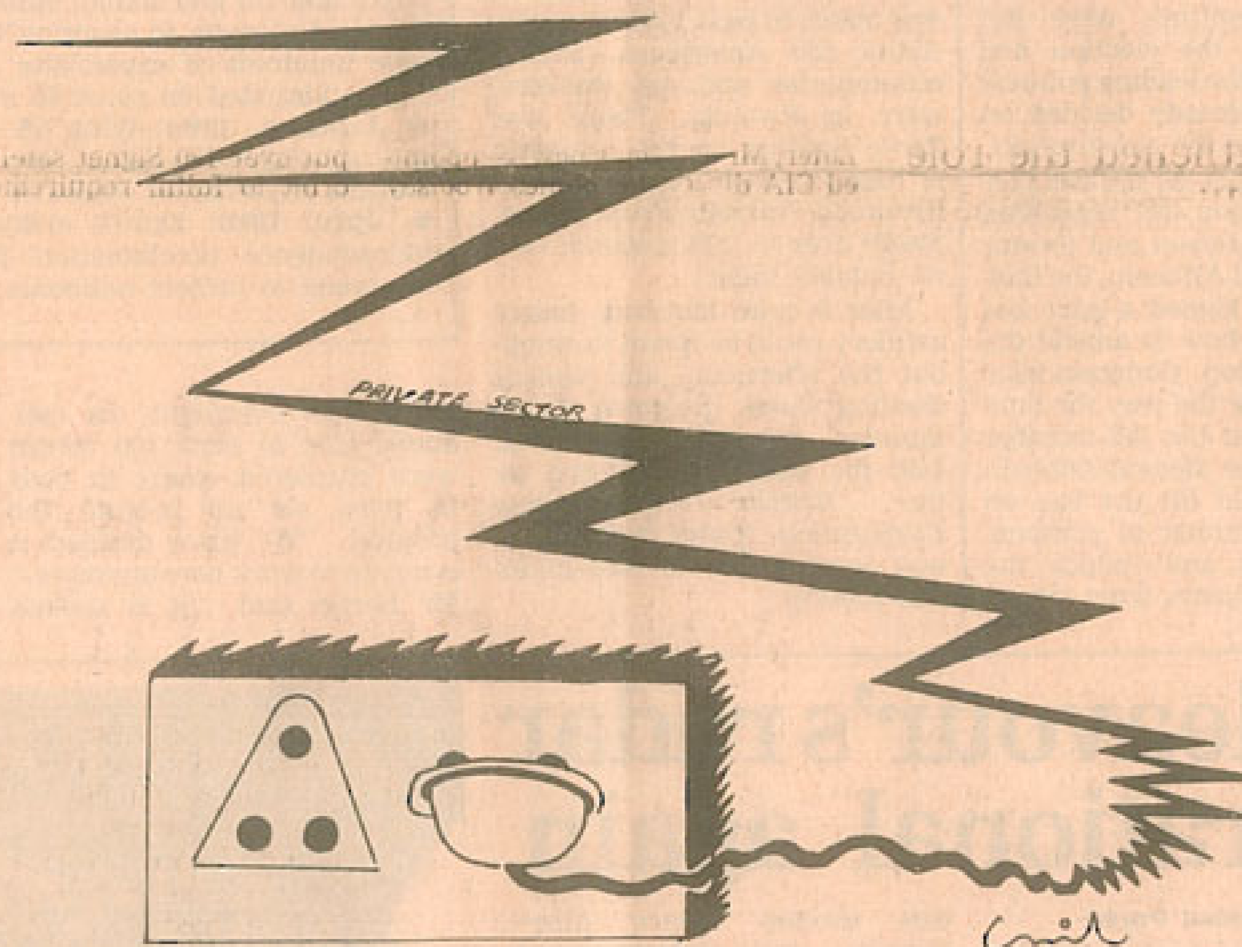
So far, only seven such proposals for an additional generation capacity of 5000 MW have been approved. Even these projects, as and when commissioned, will be providing power at a substantially higher cost than the present tariff charged by the SEBs.

In the case of 2015 MW Dabhol power project in Maharashtra under implementation by the ENRON Development Corporation (Houston, Texas), the power tariff on completion of the first phase by the year 1997 will be 7.47 cents or Rs 2.30 per unit. In fixation of this rate, a guaranteed post-tax return of 16 per cent on networth has been allowed at 68.5 per cent capacity utilisation. In addition, fairly liberal allowances have been incorporated towards depreciation, repairs and maintenance etc.

The actual plant load factor (PLF) of the Dabhol project could be as high as 90 per cent. That would mean a clear-cut bonus on recovery of the capital charges over a big range of 21.5 per cent, thus adding enormously to the profitability. Depending on the actual capacity utilisation, a return as high as 30 per cent post-tax has been estimated.

The project is protected from the uncertainties of demand, assured sovereign guarantees with regard to payments and shielded against fluctuations in the exchange rate. So much so, during the non-peak hours when the overall demand is suppressed, the Power Purchase Agreement (PPA) envisages lifting of the power from this project at the full load even if it means MSEB being saddled with surplus power from its own generating capacity. With Dabhol setting the precedent, the position in respect of other foreign sponsored projects will be no different.

Far from fostering competition, it is a clear case of the private monopolies appearing on the power scene. In fact, we will have to reckon with even a worse situation of two monopolies trying to outsmart each other in their manoeuvres to exploit the situation of shortage.



Whereas the state monopolies are seeking to raise the tariffs — for both industrial and non-industrial users — with a view to cover up their inefficiencies and reduce losses, the private sector power projects are being given the licence to reap supernormal profits free from all uncertainties and hazards.

Given the unprecedented resource crunch coupled with the fact that power projects are highly capital intensive (creation of 1 MW capacity needs about Rs 4 crore), the government chose to exercise the easy option of wooing the multinationals with extraordinarily attractive terms for their investment.

Although some of their concerns like guarantee of payment or assured supply of the fuel may have been genuine, the government's desperation gave the MNCs the opportunity to extract their pound of flesh. In retrospect, liberalisation of power sector was never intended to generate any meaningful benefit to the consumers of power.

The present desperate situation is our own creation. The problems on the power front have been allowed to accumulate over the years and no sincere effort is being made even now to tackle them.

Barring the plants under the NTPC, the average PLF in India is miserably low at about 50 per cent. Raising the latter even to the level of the former can give us substantial additional generation capacity. Alongside, this would also result in lowering of the generation cost per unit as the capital charges are distributed over a larger number of units. Tightening up transmission and distribution losses averaging about 23 per cent can further contribute to cutting cost.

While the omissions and commissions of the SEBs have gone largely unattended, their inevitable sickness is being sought to be transferred even to the much better run NTPC, which because of the huge outstanding dues from the former, is consequently, unable to take care of its working capital and investment requirements. Regrettably, all SEBs have resisted restructuring to improve their working and ensure financial viability. Instead they have taken to the easy option of raising tariffs.

The uniform pretext has been that subsidised rates hitherto being charged to agricultural and domestic sectors are responsible for the SEBs' insolvency. That may be an important factor, but this convenient excuse is being used as a smokescreen for letting other fundamental/generic ills go unattended. In the absence of a concerted drive to effectively tackle the latter, even if the SEBs charge the commercial rates to the agriculture and household sectors, it would not be possible for them to come out of the red.

Privatisation per se is a healthy proposition. But, the process must begin with the SEBs. To start with, they should be converted into autonomous corporations manned by professionals and not by the bureaucracy. Simultaneously, the distribution of electricity should be entrusted to the private companies. This should, on the one hand, help in generation of power efficiently, and on the other, ensure proper collection of dues and prevent leakages from the system.

In the next stage, these corporations may be partially privatised by disinvesting a part of the government's equity holding. The funds so garnered should be utilised for revamping and modernisation of the generation and distribution system.

In the third stage, we should think in terms of allowing the private companies to enter in the field of generation. Here again, the involvement of the MNCs, if necessary, for reasons of meeting the resource gaps, has to be considered through joint venture with their Indian partners. Together with our well-developed indigenous capabilities such an arrangement should also prevent the possibility of abject surrender to the MNCs when it comes to negotiating the terms and conditions.

While seeking their help in building our power infrastructure, there is no reason why we should not make the MNCs face a business environment, which while being fair to them, is not exceptional. It would also help us in keeping power tariff low.