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“Crisis in Electricity-Stalled Reforms” by S L Rao

Electricity is basic to economic growth, human development and comfort. Almost half the population is without electricity. There is a severe shortage in many parts of India. We are said to be the largest users of electricity for pumping out ground water for agriculture. This has severely lowered the water table in many parts of India. There is almost no limit to our need for electricity. Many households who cannot afford it, either steal it or are given electricity at below cost and in some places even free.

The growth of the sector has been spectacular, and mostly under government ownership and control, as well as management. It has been increasingly badly managed. Government and the complete absence of competition, led to populism in pricing and supply, as well as high levels of inefficiency and thefts. . As the sector grew, investments and revenues shot up, government ownership led to political meddling in tariff setting, employment in the operating companies, and the growing role of administrators in management.

By 2001, state-owned distribution enterprises were losing vast sums of money. These losses were diverted funds from building physical and social infrastructure. Losses were because of free or below cost supplies to poor and vulnerable groups in the state without properly identify the beneficiaries. Where power was given free to farmers (Punjab, Tamilnadu, Karnataka among others), there was no limit on the number of pump sets per farmer, nor measurement or limit on the power consumed.

The transmission and distribution systems with aging equipment and declining maintenance were also used to steal electricity with collusion by employees of distribution enterprises. Thefts were hidden under normal transmission and distribution losses or as agricultural consumption. Technical losses on the wires should not be more than e

8% but were 55% in some states, and not much less in others. If not for government ownership these enterprises would have been bankrupt.

State governments postponed annual maintenance of generating plants so that power supply would not be affected before elections, damaging expensive equipment and loss of generation. Tariffs determined by regulators were prevented from being given effect to by state governments.

Poor maintenance of transmission lines in Uttar Pradesh for example was a reason for the Northern Grid collapse in 1999. The control over load dispatch centres by central and state governments resulted in government interference in protecting suppliers or consumers whose actions had adverse consequences on the national Grid. Karnataka postponed generation plant maintenance, or stopped washing coal to save money, and lost much generation over time.

Regulatory commissions in most states were not truly independent and did not prevent these abuses. The results: declining power availability and quality, financial crunch of distribution enterprises, drain on state government finances because of electricity, lack of investment in power in India despite a vast and growing demand. The causes were: government ownership, particularly by state governments, submissive Regulators, separation of fuels from electricity in government and in regulation, fuels mostly under government ownership and management, the operation of electricity enterprises especially in the states as government departments under administrative officers, and similarly with regulatory commissions.

State governments will not reform electricity. The Centre makes pious appeals but ends up bailing out state governments: some years ago this was by Rs 40000 crores, and now by Rs 120000 crores, to meet the accumulated losses in distribution.

In 1994 government opened generation of electricity to private, including foreign, investment. Domestic investment came in but has now been put off by government inability to ensure fuel supplies, and weak finances of state governments who are unable to pay for what they buy. The two foreign investors were Cogrentrix, who exited after some years because of environmentalists, and the Enron whose white elephant in Dhabhol is an albatross around india's financial neck. In 1998 both transmission and distribution were opened to private investment nut Power Grid. the central government owned interstate transmission monopoly held up permissions to private transmission investors for seven years. The only private investments in distribution were in Odisha and Delhi. The latter transformed the power situation in Delhi but is under attack by the Aam Aadmi Party.

In the last twelve months, CERC,. central government, and the Appellate Tribunal for Electricity (ATE), have initiated actions that might save us from the power system's collapse. The ATE has ordered state regulatory commissions to mandatorily (as the law requires them to do) review electricity tariffs by a given date each year. The CERC has initiated power trading, power exchanges, rationalized transmission charges; enabled private investments in transmission, introduced competitive tariff based bidding, power trading, and will announce rules for reviewing agreed long-term tariffs. This review is in projects like generation plants based on imported coal, whose prices were sharply raised by exporting countries. The central government has improved coal supplies despite the mismanagement in Coal India. The central government is also trying to start generation in the 15000 MW of stranded gas based generation capacity. This will free locke up investment of around Ra 75000 crores.

The central government has also issued a draft legislation to bring better practices to the electricity distribution sector. This will have to be legislated by state governments since electricity distribution in a state is a concurrent subject in the Constitution. What this law is

going is to legislate better management by distribution enterprises. Government is substituting legislation for action. Governments should privatize distribution or induct professional managers and give them long tenures at the heads of these enterprises. They have huge investments, employees and turnovers. They must have delegated authorities at all levels, sound human relations practices, good planning and forecasting, and financial management. They should be run on commercial lines. Subsides for select consumers must be paid for by governments. Many functions legislated in the bell should have been performed by state regulatory commissions. The Bill does not also professionalize the selection, calibre and appointment of regulators, and the Boards and Managing Directors of distribution enterprises. Whether state governments will legislate this Bill is a big question mark. In any case, with limited time for Parliament to consider and pass legislation, it looks highly unlikely that this Bill will pass.

Two other draft Bills are from the Planning Commission: to enable renegotiation of tariffs in long term contracts; and another is to reform regulatory commissions so that all have uniform functions and powers. Both have some flaws that need attention but they are necessary legislation. This is unlike the draft "Model State Electricity Distribution Management Responsibility bill 2013".

After twenty years of reforming the electricity sector, the sector is in severe crisis. There seems to be some awakening on the issues but the approach is still towards government control. Things may improve a little but the crisis will remain.

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