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“Holistic vision for power sector” by S L RAO

The UPA had a junior Minister for Power, a retired non-performer for Renewable Energy and a Coal Minister who resigned under a cloud. The NDA put its bright Ministers in charge of 3 related Ministries, Power, Renewable Energy and Coal. There is a holistic approach to the issues but nuclear power must be included. Close coordination with Petroleum and Gas Ministry must be ensured.

India's energy problems are due to lack of an integrated holistic vision of the sector, poor attention to detail and poor planning by governments at central and state levels. The problem is not distribution alone. Its concurrent nature in the Constitution puts distribution and retail tariffs with state governments. The statist philosophy of the Congress led to the continued dominance of the central public sector in generation and transmission, and by state governments in state level generation, distribution, and load dispatch. This led to pandering by governments to their own enterprises.

When independent regulatory commissions for tariff determination were created, they were also almost entirely manned by retired bureaucrats (not economists, management specialists, energy specialists). This made many subservient to governments.

Government allowed high debt (up to 80%) in electricity investments and asked nationalized banks to lend the funds. Today over Rs 300000 crores of bank assets are non-performing. Utilities, especially electricity, are funded elsewhere from long term savings in pension funds, etc. In India banks lend for

these long term investments from short term deposits, and interest costs are high, reflected in power tariffs.

Crony capitalism and non-supply of gas and coal has led to large stranded generation capacities. Coal India has reneged on supply commitments of coal, many times of poor quality, with expensive damage to turbines. Open access, freedom to buy from any supplier in India, was disallowed by many state governments, leading to substantial quantities of cheap power left unused.

Minister Goel has speedily completed the coal auctions ordered by the Supreme Court. Well over Rs 100000 crores from them is to go to state governments. He expects the private owners of these mines to produce 100000 tonnes of coal over the next five years. But how these costs will lead to higher power tariffs or losses to suppliers. Coal India has not evidenced any change in its sloth.

Transmission is dominated by state owned behemoth "PowerGrid Corporation". It prevented private investment on any scale. Ministry has now cleared major transmission projects, especially to the South, the area of maximum demand growth. Major projects that would have been grabbed by PowerGrid are now open to private investment.

The ultra mega power projects, with power generation capacities of 4000 MW in each, placed near coal mines, was an innovative idea. But government clearances were slow, tariffs were fixed for 25 years, imported coal from captive Indonesian coal mines had tariffs raised by that government making power tariff quotes unviable, adversely affecting the market position of the company. Another UMPP based on domestic coal took over the project at the low rate of a disqualified successful bidder. Government apparently asked that tariff remain unchanged. Extra coal reserves in the mines allotted were allowed for another 4000 MW plant which would have made up for the low power tariff. This has been disallowed by the Supreme Court. UMPP is a good idea gone wrong. Government should have a Renegotiation Commission in such cases to fix new tariffs despite a signed contract.

The UMPP was a new idea to both government and bidders. We need the electricity. A way must be found to use the capacity now built or waiting. We must revive huge unproductive investments. A project with investment of over Rs 20000 crores and five years of construction should not have expected a "levellized" tariff for 25 years. There are too many unforeseeable uncertainties to make a good forecast. UMPP is a good idea, poorly thought through.

The issues in distribution are because of poor capacity to pay by distribution enterprises because of low populist tariffs (free to farmers and some others, below cost to many, with collusive thefts galore). Most of these enterprises (with turnovers of Rs 10000 crores or more, and thousands of employees), are owned by government. Most are headed by young bureaucrats for whom electricity is not a career. Under government ownership there is excessive centralization, little accountability, and much collusion in theft of electricity. Electricity distribution must be privatized. Till that is done, they must be run professionally by career managers and without bureaucratic interference of any kind.

Independent regulators must be truly so and appointed with care. Being 60 and over or because of 35 years of administrative experience, are invalid qualifications. Regulators must be appointed for necessary skills to run such enterprises. They must be made to audit all expenditures of the DISCOM thoroughly. They must be overseen by High Courts and any shortfall in performance (including audit), must be penalized.

India's tragedy is that it has depended on generalists to run large enterprises. The results are there to be seen. Between them and their political masters they have created a mess that requires careful unraveling.

Mr. Piyush Goel has a challenging task ahead of him. It will take many years of careful effort to deal with all issues. It must be done holistically, with honesty and implemented carefully with specialist advice."

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