

**DECCAN HERALD**



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**Path to further decline**

## **Path to further decline**

**S L Rao, Nov 14, 2014, DHNS:**

**I have repeatedly warned of the crisis in the electricity sector in Karnataka. It will affect the healthy finances that this government inherited.**

**The heritage included policies that are leading the state to crisis.**

**The Modi government's emerging Energy Reforms will lead to further decline, and make what was one of the best run electricity sectors in the country, to be on par with the worst.**

**What are these inherited destructive policies? They are free power to agriculture, lack of career professional management in electricity undertakings, political decisions on power plant maintenance, electricity theft, poor maintenance and deteriorating safety.**

**The free supply of electricity to farmers, without metering or any restrictions on use was not a wise decision; it did not help the poor**

**farmers and drained the government finances.**

**Government does not know with confidence how much electricity is used by agriculture. Agriculture has become the facade for increasing diversion as free power to industrial and commercial establishments.**

**With free electricity, demand for power (measured as free power) for agriculture usage has increased from a mere 12,000 million units (about five years ago) to 17,000 now.**

**Last year, the agricultural subsidy bill was assessed at Rs. 5,200 crores and if the demand grows at 8 per cent per year, the government's subsidy burden will go up by 13-14 per cent every year.**

**Government provides free power to about 2.2 million irrigation pump sets across the state.**

**Only 22 per cent of marginal farmers (owning less than 1 ha) own these pumps. Many large farmers are much more likely to own more than one pump, and tend to have more powerful pumps. Their share dominates the subsidy bill.**

**The free power for agriculture is therefore a subsidised welfare scheme to "kulaks" who are relatively better off farmers, and not to the poor without any pump sets.**

**What is worse is that the subsidy bill is rising much faster than growth in agricultural production.**

**There is no doubt an increasing portion of the free power to farmers is stolen and diverted for industrial and commercial use.**

**Karnataka had excellent career professionals running its generation and distribution enterprises.**

**This is no longer so, at the top levels. There is little motivation to run commercially profitable enterprises.**

**This can be seen in the poor maintenance of expensive equipment in generation and distribution.**

**It has led to frequent breakdowns in the largest generation complex at Raichur.**

**Political decisions to postpone maintenance in order to ensure ample supplies before elections are acceded to by the managers.**

**The poor maintenance of distribution transformers and other equipment results in frequent blackouts and worse still, serious safety problems.**

**Transmission and distribution losses are high due to theft (in addition to the diversion from agriculture supplies), apart from technical inefficiencies.**

**Cash shortages arise due to “transmission and commercial losses” (mostly theft) and the low average tariffs.**

**This inevitably leads to poor cost recovery, lack of funds to replace equipment and set up new generation capacities.**

### **Privatising distribution**

**Many years ago the then Chief Minister S M Krishna proposed privatisation of distribution in Karnataka.**

**I, like many other well-meaning persons, suggested some changes when asked to comment.**

**However, perhaps, due to internal and political opposition, the proposal was dropped and forgotten ever since.**

**It could have improved the performance of the sector and even offset the negative effects of free power to agriculture.**

**Karnataka has no fuel resources – coal, gas or uranium. It has scope**

**for renewable energy but it can only marginally add to the state's growing electricity requirements.**

**At present it is also much more expensive, though costs have been declining. Thanks to the enlightened Maharajahs of Mysore of yore and their Dewans, Karnataka has almost fully exploited its hydroelectric potential.**

**All its needs must be bought from other states, which require adequate transmission connectivity with the rest of the country, something that is still inadequate.**

**Fresh generation capacity requires coal, gas or uranium – all from other parts of India or abroad.**

**Environmental agitations not countered by political leaders has meant that we cannot set up coast-based generation plants based on imported fuels, especially coal.**

**We no longer have a welfare oriented UPA central government to give away goods and services below cost or for free, adding to government deficits.**

**The Modi government is fixated on restoring macroeconomic balance with balanced budgets and balance of payments, and moderate inflation.**

**Already it has increased domestic gas prices by over 50 per cent. It will be higher for deep sea gas.**

**It has deregulated diesel prices which will now vary with imported crude oil prices (presently declining). These are major elements in electricity generation costs.**

**If Bidadi comes about, it will use imported LNG which will be much costlier than the new gas price.**

**The added costs are from the Supreme Court decision and the**

**ordinance in response.**

**Supreme Court cancelled 204 captive coal block allocations, many to power generation plants, in addition to levying Rs. 294 per tonne on hitherto extracted coal from these mines.**

**The mines are to be auctioned. They had earlier been given free for captive use. These will add significantly to costs of power generation.**

**If tariffs are not raised correspondingly, the state government will face an additional and substantial subsidy cost to continue its populist pricing and condoning of electricity thefts.**

**It is time for the Karnataka government to forget its Congress and socialist mindset and manage the highly capital intensive electricity sector professionally as well-run business enterprises.**

**If government wants to subsidise the poor it must do so after properly identifying who should be beneficiaries and ensuring that only they benefit.**

**If the government does not act accordingly, we stand to lose the other inheritance of Karnataka-the well managed finances of the state, thanks to actions by Krishna and the Moily committee.**

**We have already lost the legacy of a well-managed power sector.**

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### **WARNING ON ELECTRICITY DRIVEN FISCAL CRISIS” BY S L RAO**

**This columnist has repeatedly warned Karnataka about the crisis approaching it. This is primarily on account of its management of the power sector. The BJP under the unlamented Yediyurappa declared free power to farmers. There was to be no metering and no restrictions on the number of pump sets to be energized by free power. There was no thought of the many millions of farmers who do not own pump sets and are not benefited. Indeed they might suffer from a water shortage because their neighbours with pumps might be drawing water out of the common water basin.**