‘COMMENTARAO’ IN “THE TELEGRAPH” OF JANUARY 6 2013

“POWER SHORTAGE

- There is little action from the Centre and states on electricity**” by S L Rao**

Electricity in India has grown enormously. As it has grown, especially in the 1990’s it was also increasingly badly managed. The important reasons were the dominance of government ownership, control and management, and the complete absence of competition. While government investment without much commercial calculation rapidly expanded the system, it failed in other ways.. 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 managing electricity enterprises.

By the early part of this century, state-owned distribution enterprises were losing vast sums of money. These losses were a charge on the state government budgets and diverted funds from building physical and social infrastructure, routine maintenance, renovation, modernization and investment for fresh capacities. Losses occurred due to free or below cost supplies to poor and vulnerable groups in the state, excessive staffing, undisciplined staff, and collusion in theft. Beneficiaries of populist sops were not clearly identified. Many undeserving and thieving staff, benefited instead. Free or low cost power to farmers was without ensuring it was used only for irrigation. There was no limit on the number of pump sets that for which a farmer could get free power. There was no measurement or limit on the power supplied and consumed. What was shown as power consumed by agriculture included a lot that was actually stolen by other consumers, or concealed by the distribution enterprises under agriculture to hide their inability to ptrevent thefts.

The transmission and distribution systems were poorly managed, with aging equipment and declining maintenance. Employees of the distribution enterprises many times colluded in thefts, hidden under normal transmission and distribution losses. While technical losses as electricity went on the wires should at worst be 8% or so, they were as much as 55% in some states, and not much less in many others. Government ownership led to disinterest in efficiency and loss of employee integrity, since losses would be at the cost of the state budget. If these enterprises had been commercial enterprises, they would have been declared as bankrupt years ago.

Government ownership also led to favoring government owned enterprises. For example when CERC was formed in 1998, NTPC was earning large sums as incentive on plant load factors in generating plants at above 64%. In fact the average was around 80% so that NTPC was earning hundreds of crores for no fresh improvement, at the expense of the consumer, from these unwarranted incentives. Similarly NTPC was granted “accelerated depreciation” which added to consumer tariffs. Though meant to help service loans, NTPC had enough cash generation to keep this extra cash flow to itself.

In many cases, tariffs determined by the regulators were prevented from being given effect to by the owner state governments.

State governments (as in Karnataka) asked for postponement of annual maintenance of generating plants so that power supply would not be affected before elections. This damaged expensive equipment and led to decline in generation in later years.

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 favored suppliers or consumers. Such actions had adverse consequences on the national Grid. A good example was the twin grid collapses in much of India in 2012. The load dispatch centres that should have disconnected overdrawing states did not do so. These states voted for the Centre in Parliament.

If regulatory commissions in the states had been truly independent they would have prevented many of these abuses. They would have asked for and monitored maintenance schedules. They would have monitored thefts and ensured severe penalties on thieves. They would have made electricity enterprises to discipline erring employees. They would have ensured independent functioning of load dispatch centres. They would have insisted that tariff orders should be obeyed by the distribution enterprises. They would have prevented government enterprises form being favored.

The culprits for the dismal state of power availability and its quality in India, the financial disasters in distribution enterprises, the drain on state government finances because of losses by electricity enterprises, the lack of investment in power in India despite a vast and growing demand, are well known. The causes are government ownership, particularly by state governments of distribution enterprises, the submissiveness' and lack of understanding of their duties among regulatory commissions, the separation of fuels (also largely under government ownership and management), electricity enterprises as government departments under administrative officers, and similarly with regulatory commissions.

State governments will not reform electricity. The Centre makes pious appeals but bails out state governments. Some years ago this was by Rs 40000 crores, and now by Rs 140000 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 the weakness of the purchasing state governments who are unable to pay for what they buy, and the inability of Coal India to supplied contracted coal and of Reliance Industries in supplying gas. The two foreign investors were Cogentrix, who exited after some years because of environmentalists, and the unfortunate Enron which set up a white elephant in Dhabhol, still an albatross around India's financial neck. In 1998 both transmission and distribution were opened to private investment. The central government owned Power Grid Corporation 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 has heavy ammunition being thrown at it by do-gooding aspiring politicians.

Awakening of CERC, central government, Appellate Tribunal for Electricity (ATE), has resulted in some actions that might postpone imminent collapse of the power system. The ATE has ordered state regulatory commissions to mandatorily (as the law requires) 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, and is considering how to review tariffs on projects for which long-term tariffs were agreed but where costs have gone far beyond anticipation. The central government has introduced measures to improve supplies of coal, and is struggling to do the same for natural gas whose unavailability despite promises has resulted in stranded capacity of around 15000 mega watts of generating capacity with investment of around Ra 75000 crores.

The central government has floated draft bills to bring better practices to the sector: to enable renegotiation of tariffs in long term contracts; and to standardize functions and powers of regulatory commissions.

Distribution is a state subject under the Constitution and the Centre's draft bell on it has to be legislated by each state government. It is the "Model State Electricity Distribution Management Responsibility Bill

2013". It is really a bell that is a treatise on managing distribution enterprises, instead of privatizing them or professionalizing their management. Many of its clauses should have been unperformed normal duties of state regulatory commissions. The bell says nothing about putting career professionals in charge of distribution enterprises, privatizing them, selecting and appointing truly independent regulators. State governments are unlikely to legislate this bell, limited time will prevent Parliament from considering it.

Neither central nor state governments seem to want to take the necessary actions if India is not to decline because of electricity shortages. Twenty years after beginning reform of the electricity sector, there are only stopgap measures, not permanent solutions. Little urgency to save the most critical element for economic growth is visible.

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