

## **FINANCIAL EXPRESS**

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### **“Why government should privatize Energy Assets” by S L Rao**

**The Prime Minister has now woken up to the mess his party has made of our energy infrastructure and investments, with nationalization, state control and management, populist pricing and subsidies, overstaffing and lack of any individual accountability. Yet his government has again provided a vast sum to bail out state electricity boards that have accumulated huge losses by their own inactions of under-pricing power and allowing theft.**

**What is India’s energy situation? Most of our energy assets, coal, oil and gas, electricity of all kinds (atomic, thermal coal based, oil and gas based, generation, transmission and distribution) are owned, controlled and mostly (mis)managed by central and state governments. Almost 90% of electricity generation is by central and state governments. Almost all inter-state and intra-state transmission is owned by them. Almost all electricity distribution is with state governments, except for legacy private distributors like Reliance and TATA in Bombay, CSES in Kolkata, and a few others, plus the distribution privatized in Orissa and Delhi well over a decade ago. Coal is nationalized and coal mines are owned and operated by public sector companies. Petroleum and natural gas assets are all owned by government which leases sites for exploration and production by private parties and determines the prices at which they will be sold and to whom. A major part of oil refining is owned by the central government, as is their distribution. All atomic energy generation is with the central government.**

**At one time, soon after independence, the private sector in India was too small to find the resources to invest in electricity, oil and gas exploration and production. State-Owned enterprises were created and**

**government funds enabled investment and capacity in these sectors. However, government's administrative services acted as the owners. All public enterprises were subservient to them. Salaries of their officers were determined by government in relation to those of other government servants. Entrepreneurial decision-making was at a discount. Procedures took precedence. There was little accountability and delegation in these enterprises. There were independent executives like V Krishnamurthy (BHEL, SAIL< Maruti), DV Kapur (NTPC), and a few others who introduced good management practices but their departure made the public enterprises give up in risky enterprise decisions for safe "by the book" procedures.**

**With overall economic growth and a burgeoning population, funds and managerial capacity in the public sector were inadequate to meet the spiraling demands for energy. Governments were unwilling to give up state control and management of energy assets. Roundabout ways were created to let the private sector invest in energy. Government retained power to regulate them on tariffs, who to sell to, etc.**

**Thus, in coal, the UPA government gave "captive" mines at no cost for exploitation by some users in power, and other sectors, resulting in large corruption now being investigated. More advisable would have been to auction coal assets and subsidize the end product to specified vulnerable groups and identified individuals. A comparison of the production efficiencies and costs of privately cooperated coal mines and those run by state owned enterprises is bound to show low productivity, high cost, and backward technology. Estimation of reserves of available coal is probably grossly underestimated by government enterprises.**

**Similar inefficiencies are suspected in exploration for oil and gas and their production. There is a sense that government companies have been very casual and slow in finding and exploiting oil and gas in India's boundaries. In the years that private licenses were given,**

**strangely few major global operators have applied. There has been an easy and crony relationship between government officials and these private lessees at the cost of increases in gas supplies for use in the economy.**

**The Prime Minister after courageously leading the recognition of India's nuclear capabilities by the world and freeing of uranium supplies, set modest targets of atomic energy capacity by 2020. There is little chance of their being met because both the administrative and nuclear bureaucracy wants to confine it to government enterprises. Government has neither the funds nor the human resources to meet even the modest target.**

**What is the answer? India must break away from the mindset gifted to India by Indira Gandhi and faithfully implemented by her family ever since. This has faith only in government ownership, management and control. It has strong populist tones of giving free or below cost infrastructure to a large number of people. It has little determination to identify them and ensure that they receive what is meant for them at the subsidized prices or free. Much of these government expenditures on subsidies are stolen by politicians and bureaucrats. It is not surprising that Indians are said to have the largest illegal assets holdings in overseas tax havens.**

**All coal assets held by governments must be privatized. Coal should be freely traded on a national coal exchange. A fully empowered Energy Regulators must ensure competition, quality, timeliness and efficiency in production. All electricity assets must also be privatized and subject to the Energy Regulator who will oversee efficiencies, costs and competition. Oil and gas prices and sales must be deregulated, and determined on the market. There must be an Exchange for coal including imported coal, as for oil and gas. Electricity is already traded efficiently on the Exchange. If policy requires subsidies they must be funded directly by government to identified people and paid to them in**

**cash. A single Energy Regulator must oversee the sector for efficiency, costs, competition, etc.**

**Saly we are all conditioned by the many years of state ownership to doubt if any other system can be better, even when the state system is inefficient and corrupt.**

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