

What can SBI do if UP doesn't raise power rates?

Given how most government functionaries, apart from the media of course, are keen to package any move by the government as a reform, Planning Commission Deputy Chairman Montek Singh Ahluwalia's comments to the Express Group's Idea Exchange ([give url here](#)) come as a breath of fresh air. Raising diesel prices, he said, was an administrative move and could not, under any circumstances, be called a reform. Given that the diesel under-recovery was Rs 12 a litre in August before going up to Rs 17 in September and then coming down to Rs 12 after the Rs 5 hike, it may not be too long before we're back to the Rs 17 number – in which case, where's the reform, more so since this hike took 27 months to fructify? True reform would be the government allowing the prices to change freely along with global prices.

What makes understanding this distinction so important is that not only will the government need to keep hiking diesel and kerosene prices (Rs 32.7 per litre is the under-recovery on kerosene!) if it doesn't want the oil under-recoveries to go back to Rs 2 lakh crore, an even bigger challenge will be to regularly hike electricity tariffs. While the average tariff-to-cost ratio for power was 82.2% in 1992-93 before falling to 67.8% in 1999-2000, it rose to 82.2% in 2006-07 but started falling after that, to around 78% today. On the face of it, the proposal the Cabinet will clear later this week to restructure Rs 2 lakh crore of power sector loans will link this to power sector reforms. So, in return for an interest rate moratorium of three years that public sector banks will have to bear, power utilities are to promise to hike tariffs regularly and electricity regulators in each state will have to ensure this. The details, however, are delightfully vague. Does all the increased cost each year (due to higher fuel costs, for instance) have to be passed on and what of the backlog which is critical if the Rs 6 lakh crore of existing power sector loans have to be repaid? Most important, if UP doesn't raise tariffs as promised, will SBI be allowed to demand interest payments from it during the moratorium period, and if UP can't pay those, what assets of UP can SBI take over? Here's to another empty 'reform'!

