Power utilities have long eroded their net worth

With aggregate losses of all power utilities rising from R16,000 crore in FY08 to R63,000 crore in FY12—without accounting for subsidies they rose from R35,000 crore to R93,000 crore—it is not surprising that the sector as a whole has a negative net worth. From R15,000 crore in FY10, this fell to R5,000 crore in FY11 and to a negative R32,000 crore in FY12, according to the Power Finance Corporation's (PFC) latest report. While the consequences of this loss are something the banks need to deal with—the government's fiscal restructuring programme has taken away some of the heat in terms of declaring the accounts as NPAs—the larger issue is this makes it near impossible for the sector to generate anywhere near the funds required for creating the 88,000 MW projected for the 12th Plan period; there was a 24,000 MW shortfall in the 11th Plan.

While there is a physical shortage of both coal and gas for over 30,000 MW of existing projects, this is the least of the sector's problems—though Coal India's short production remains a serious problem despite the signing of new fuel agreements, the fact is that power utilities simply don't have the cash to buy all the power being sold. At 27%, the ATC losses are very high but, with the lack of competition, there is no incentive for anyone to reduce costs/losses. Electricity Act 2003 mandated competition through open access but no state regulator has enforced this; states even use their power to prevent suppliers from selling their power outside the state—both very powerful tools to enhance competition and discipline. Indeed, government policy was so faulty, it forced power suppliers to quote fixed tariffs for fuel costs, as a result of which most power projects set up in the last 5 years are in litigation. The Deepak Parekh committee has attempted a solution for some of the ultra-mega power projects (UMPPs) but this is yet to be accepted. New bidding documents for UMPPs have done away with this ridiculous clause but the bidding parameters are yet to be fixed for non-UMPPs. Which is why Rajasthan's latest power bids are for around R5 a unit, a price at which no one can afford to buy or sell power. Though IIP data shows power growth at 4.5%, the only thing the sector is generating right now is losses and even that, as the PFC report suggests, can't go on for long.