CARE report points to how precarious things are

Though the headline numbers suggest the power sector is looking up—annual losses, a Planning Commission study says, are down from R93,000 crore in FY12 to R71,270 crore in FY14—the reality is far more daunting. For one, the losses don't take into account the amounts owed to power companies such as those in Delhi—regulatory assets in Delhi are upwards of R15,000 crore and according to a study by ratings agency CARE, these are R20,000 crore in Tamil Nadu and around R12,450 crore in Uttar Pradesh. Apart from the fact that the gap between power costs and consumer tariffs is increasing each year, what complicates matters is that there are huge cross-subsidies that are upwards of 80% in some areas in UP and just under that in Tamil Nadu. Since the cross-subsidy is essentially a measure of how much some consumers (industrial and commercial users mainly) are being overcharged to subsidise others, this means rationalisation of subsidies will require a politically unacceptable hike in power tariffs for the majority of users. This is not to say charges must not be raised, but that raising rates alone is not a viable strategy.

All of which means the central and state governments need to act on various fronts immediately. While states have to work on ensuring regulators try to correct this distortion with larger hikes for the low-paying customers, both the Centre and the states have to work on reducing transmission and distribution losses which are at an unconscionable 26%, thanks to over-40% levels in states such as UP. To put this in perspective, if a supplier produces 100 units of power at R1 each, he needs to bill consumers at R1 in a zero transmission and distribution-loss scenario; if these losses are 50%, then the break-even tariff required is double, or R2 per unit. One way to reduce these losses, as states from Maharashtra to Gujarat and Madhya Pradesh have shown, is to have separate feeder lines for agriculture consumers—so, any centrally-sponsored electricity reform scheme has to focus on this.

Augmenting of fuel supplies, from coal to gas, is an equally important part of a reforms strategy since the low capacity utilisation that this has resulted in has, in turn, meant buyers end up paying higher capacity charges for the power they buy—in this context, the plan to do coal- and gas-price pooling is a sensible one. The plan to separate carriage from content in the new draft being circulated of the Electricity Act is also a good one since competition is the only way to reduce tariffs.

For now, however, the real issues centre around reducing transmission and distribution losses and to ensure power suppliers get their dues—the fact that private players have not expressed interest in bidding for the latest set of ultra mega power plants is a very worrying sign.