Big gap between DERC and company submissions

Given the nearly 20% difference between the annual revenue requirements that the three private electricity distribution companies (discoms) have projected for FY15, and what the Delhi Electricity Regulatory Commission (DERC) has allowed—R20,968 crore versus R17,613 crore—chances are Delhi's power crisis due to unpaid bills will repeat itself sooner rather than later. The Power Finance Corporation (PFC), which the BSES discoms approached for a power loan, had asked DERC to base its recovery plan for the old loans on more realistic assumptions. Given DERC's assumptions, after last week's 8% tariff hike, it has projected a minor surplus for the discoms.

The problem, however, is that DERC's assumptions often tend to be aggressive. So, according to a staff paper on DERC's website—which it says just highlights what the discoms are saying, and it is not reflective of the Commission's view—in FY13, the DERC had approved a R4.4 per unit power purchase for BRPL, BYPL and TPDDL. In reality, with power costs soaring, BRPL bought power at R5.2 per unit, BYPL at R5.6 and TPDDL at R5.5 per unit. This large gap in the annual revenue requirements is one of the reasons why there is such a large gap between what the discoms claim their regulatory assets (jargon for overdues) are and what the DERC says they are. What normally follows each such exercise is the discoms going to the Appellate Tribunal for Electricity, and then asking the DERC to rework its calculations based on its orders.

Since this is obviously unsustainable, a viable solution needs to be found to Delhi's problems. Given Delhi's dues have become so large, the central government needs to think of allowing PFC to raise tax-free bonds and on-lend these to the discoms; by lowering the carrying costs for the discoms by 4-5 percentage points, this will also cut consumer tariffs by 35-40 paise. In the meanwhile, there has to be a solution that allows for a quicker adjustment of power purchase costs—most of the problems relate to this—and passing these on to consumers. In the long run, any regulatory system that allows such large dues to get built up is asking for trouble. As the finance minister recognised when he spoke of his new 3P India initiative in the budget, PPP in India is in trouble. What is happening in Delhi's power sector is a symptom of that larger malaise.