

People Power

Power Sector – Casualty of Petty Power Games

There has been a lot of debate and commentary during the run-up to Maharashtra Assembly election and after the results, about the political fallout at the union level. But the important issue of free power has been largely neglected.

Both the leading contenders opted for the cowardly and politically profitable course at the cost of fiscal health and long-term public good. In an exhibition of unabashed populism, Congress-NCP government introduced free agricultural power few weeks before polls. The losing Shivasena-BJP combine made free power to farmers the corner-stone of its campaign. All parties compromised the fiscal future of Maharashtra and the Congress-NCP combine, which retained power, is undermining the fiscal policies and pious proclamations of the UPA government in which both parties are partners.

Maharashtra now joins two other major states in reversing rational management policies in power sector. Congress swept to power in AP with the promise of free power in May, 2004. In Tamil Nadu, Ms Jayalalitha's government too reversed its earlier policy and opted for free power in the face of massive rejection of the ruling combine in the Lok Sabha elections. Sadly, Maharashtra and Tamil Nadu SEBs are two of the better-managed ones in India, and both are now set up for failure. AP utilities were struggling for years to make ends meet, and free power and write-off of arrears set them back significantly.

In many ways, the fiscal and industrial future of the Indian states, their productivity and investments will largely depend on this key infrastructure sector. Let us look at the grim facts. The cost of power supply in AP in 2001–02 was 361 paise / KWH, whereas average tariff was 222 paise / KWH, resulting in a loss of Rs. 1,194 crores even after receiving a huge subsidy (Rs 1,626 crores) from the state. The corresponding figures for Maharashtra were 358 paise, 270 paise, and Rs 3524 crores losses; and for Tamil Nadu, 310 paise, 237 paise, and Rs 2260 crore losses. The total losses of the power boards of major states in 2001–02, after receiving subsidies, were a whopping Rs 24,837 crores!

Meanwhile access and availability of power are at appalling levels. Less than 50 percent of all population has access to electricity, and rural access is about 33 percent! For over a decade there is talk of reform. But results are dismal. The power availability, and losses speak for themselves. As opposed to 4-8% transmission and distribution (T&D) losses in developed countries, and 10-14% losses in South-east Asia and Mexico, T&D losses in India are about 28%! Nobody knows the real figures, because in many states there is no proper energy audit. For instance, in AP, only about 46% of all the power produced is metered and billed. The balance 54% goes towards unmetered agricultural power, or is lost in transmission, or stolen (euphemistically termed 'commercial losses'), or lost due to poor distribution network ('technical losses')! At best we have a broad picture of what is happening. But we have no desire to localize the problems and solve them through

managerial and technical interventions. If the Indian state is withering away, the near-collapse of the power sector is symptomatic of that.

The really sad part is that in recent years some urgency was being shown to address this crisis; but recent political events have now led to a domino effect deepening the crisis. Three of the 'better' states have now announced free, unmetered power to agriculture and others will be compelled to follow suit. The Central Electricity Act forbidding unmetered power, or realization of less than a minimum tariff has been relegated to the dustbin.

Surely the union government can do better than resort to pious homilies and periodic diktats in the face of this mounting crisis which is bound to have catastrophic consequences. True, every party succumbs to the logic of the ballot box. But inaction is not an option. There are creative and politically least-costly solutions available.

First, farm sector undoubtedly is in distress. But to pretend that free power is the answer is sheer hypocrisy. The real answers lie not in additional subsidy but in increasing capital investment (irrigation and soil conservation), enhancing productivity (technology, extension and inputs), better infrastructure (storage, transport and marketing), and value-addition (agro-processing, grading and packaging). For instance, in AP, already agri-power was heavily subsidized, and the added relief on account of free power was only Rs.400 crores per annum - about 1% of state's budget! Farm sector deserves ten times more support, but by other means, not by undermining power sector.

Second, agri-power issue should be de-linked from economic tariffs and cost recovery. The issue must be linked to water and power conservation, and energy auditing. Unmetered power (free or with slab tariff) is a recipe for disaster as it encourages high water and power consumption. Precious ground water in dry areas is depleted by indiscriminate use; water-intensive crops are raised by the few lucky farmers who strike water, at the cost of others. There is no incentive to save power, and inefficient pumps and motors and absence of capacitors in many cases are leading to criminal waste of power and environmental damage. Most of all, unmetered power makes energy auditing impossible, and thefts, corruption and gross inefficiencies go unchecked. Metering, free or low-cost power up to a ceiling, graded tariffs linked to consumption, and targeting concessions to dry crops and small farmers are vital and necessary.

Finally, the real problem in power sector is distribution management. The 28% T&D losses (possibly over 30% in several states) must be brought down to 15% or lower. That needs proper metering of all consumers, energy balance at sub-station, feeder and transformer levels, specific local interventions to curb thefts, and investments to stop technical losses. The states no longer have that capacity. We need to decentralize distribution at sub-station and feeder level, and invite local entrepreneurs to manage them through competitive bidding process, giving proper incentives linked to reduction of distribution losses. Local knowledge, profit-motive, and their capacity to manage local, political economy will reverse the vicious cycle. What's more, a million youngsters can

find employment all over India in distribution management, as local monitoring is a low-tech, labour-intensive job.

Once we combine these three strategies, it will be a win-win situation for both agriculture and power sector. What we need is bold leadership and integrated approach to the crisis, not disaggregated, isolated, desultory action; innovation, not shibboleths and business-as-usual; win-win solutions, not zero-sum game. Will our politicians and managers stop dithering and act resolutely?

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