DELHI DIALOGUE

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WHITE PAPER ON ELECTRICITY

White paper on power scenario in Delhi

On January 10, Prime Minister Narendra Modi presented competition in power distribution sector with consumers having an option of choosing their power service provider as a solution to cut down power tariffs in Delhi. Discoms in Delhi have become private monopolies and introducing competition would indeed be a welcome move. However, oversimplified formulation of drawing a parallel between power and telecom is misleading and erroneous. While competition in electricity distribution will help in containing the electricity tariffs , it cannot be panacea for all the ills plaguing this sector as therer are very serious issues at various levels.

If things continue the way they are power tariff in Delhi will be around two and a half times in five years from now. The people of Delhi owe to power distribution companies—Anil Ambani owned BSES and Tata—Rs 11,432 crores with the carrying cost of 8 percent interest per annum. Another approximately 1500 crores of rupees is in the process of being approved by Delhi Electricity Regulatory Commission (DERC). In the existing policy and regulatory framework, there are only three ways to pay off the regulatory assets —(a) the central government provide funds to liquidate regulatory assest (b) the Delhi government pays off the discoms; (c) the consumers pay by way of increased tariff. Two years ago the then Delhi CM Sheila Dixit had tried exploring the first option but had failed. She had approached the then Finance Minister P Chidambaram to provide assistance under Accelerated Power Sector Reforms—a scheme by which Central government disburses grants for power sector reforms. The then Finance Minister had refused to grant the aid on the ground that the power sector in Delhi was already privatized while the scheme was meant state owned electricity boards. The second option is hardly feasible as the annual budget of Delhi government for 2014-15 is just Rs 36,766 crores, a little more than the budget of Brihanmumbai Municipal Corporation (Rs 31,178 crores). Its next to impossible for Delhi Govt to write off the Rs 13000 crores of discom debt. Hence the only way the discoms can recover their dues is by doubling or tripling the power tariff.

Imagine an average middle class family paying a monthly electricity bill of Rs 5,000 for roughly 500 units in a few years from now. The moot point is how has the system allowed this situation come to pass? What were the regulators and the government doing? Why did the previous regimes didn't order an audit of discoms and regulate the cost of power generation? The power policy followed by successive governments has failed in bringing in transparency in the functioning of various players. Everybody involved in the chain—from fule suppliers to power producers to transmission companies to distribution companies—have made money at the cost of hapless captive consumer- a common man . The beneficiary companies include both private as wells as public sector companies.

It is now well understood that power producers with captive coalmines did not pass the benefit of free coal to the end consumers. Power generators who were dependent on imported coal , inflated the cost of coal imports thus not only siphoning the money abroad but also securing a higher power tariff. The Directorate of Revenue Intelligence in its recent investigations has pegged the overvaluation of the coal imports at Rs 29,000 crores between 2011 and 2014 alone. This cost too has been paid by consumers.

The PSUs involved in fuel supply, power generation, and power transmission have also made windfall gains. The monopoly of Coal India has made it one of the most inefficient but ironically one of the most profitable and cash rich PSUs. Private players involved in the excavation, supply and benefaction (washing) of coal—mine operators, transporters, coal washeries—have earned undue profit in the process. Several cases registered by CBI and reports of expert committees set up by the Supreme Court reveals massive theft of coal during the mining, washing and transportation process. It’s the end consumer who has been paying for this dishonest practice . Both Public and Private sector power producers show excessive coal consumption(by way of very high station heat rate) to show high cost of power generation resulting in unreasonably high tariffs.

The devil lies in the details. Power generators are charging unwarranted overhead expenditures in the name of administration, welfare, research and development, secondary oil consumption and maintenance cost, which cumulatively hike up the power cost. Investigations by DRI show that the capital cost incurred by some producers has also been artificially hiked manifold. According to reports the DRI is "investigating gross overvaluation of import of equipment and machinery by various entities of Adani Group from a UAE-based intermediary.” Like in the case of over-invoicing of coal imports, the over-valuation of capital equipment for power projects enables the power producers to, (a) siphon off the public money procured from PSU banks; (b)exaggerate its capital cost of power production.

The latest power tariff orders passed by DERC throw up very important issues. The rates at which power generators are selling power to Delhi discoms varies between Rs1.2 per unit to Rs12.21 per unit. Consider this, the newly commissioned Sasan Ultra mega power plant which was awarded coal blocks under competitive bidding is selling power to Delhi at Rs 1.2 per unit. Reliance owned Sasan UMPP bagged coal blocks by bidding to supply power at Rs 1.196/unit. On the other hand Central PSU National Thermal Power Corporation, which have coal linkages with Coal India and which supplies about 75 percent of Delhi's total power consumption, sells power at rates between as low as Rs 1.75 per unit to as high as Rs 6.15 per unit. Similarly, NHPC plants supplies power at per unit rates varying dramatically between Rs 1.77 to Rs 12.21. The issue is why Delhi does not have access to cheaper power and why it is being forced to buy expensive power ?

Unfortunately Delhi has limited captive power generation capacity resulting in its dependence of external sources of power generation who profit at the cost of consumers. To contain ever increasing demand of electricity, it is imperative that Govt of NCT of Delhi sets up power generation plants either by itself or in collaboration with other players at most economical rates and locations.

Since Discoms earn an assured return of 16 percent (return on equity), they don't care about the cost of power purchased they will be made accountable in their functioning . Ways and means have to found to encourage distribution companies to purchase power from economical sources and wriggle out of expensive and unsustainable Power Purchase Agreements.

The discoms in Delhi need to be told that before they could square off Rs 13000 crores of regulatory debt they will have to agree to an unconditional and thorough CAG audit. In the past the BSES has been penalized by DERC for goldplating its expenses and fraudulent practices. Individual instances of corruption and cost inflations lead to suspicion of a pattern in inflating expenses and thus warrant a comprehensive audit. Until that happens the Delhi Government will have to support the economically disadvantaged who are already reeling under high power tariff rates and any further hike would break their back. In addition the state of Delhi needs to promote solar power on a large scale and the concept of Green buildings.

A more efficient, transparent and accountable system to regulate and audit the power sector players is inescapable The present mechanism of Electricity Regulatory Commissions too require a complete overhaul. The standing parliamentary Committee on energy in its report dtd 24.8.2012 presented in LokSabha stated *"The Regulatory Commissions have become the refuge for the superannuated but influential officials. Their primary objective is to remain in employment rather than making any meaningful contribution with regard to the activities of the Commissions in the pursuit of their objectives. Hence these bodies have lost sheen and the authority, which they were designed to represent."* The opaque and arbitrary nature of the Commissions' functioning have made them susceptible to extraneous forces. The fact that regulatory assets were allowed to accumulate since 2006 is a testimony of DERC's failure. In the past one year alone power tariff in Delhi has been hiked by 15 percent. The total increase would have been 22 percent by now had the regulator not been forced to withdraw the order of November 14 hiking the power tariff by another seven per cent. DERC withdrew the order within 24 hours after the opposition launched a fierce attack on the Central Government and threatened to take to the streets.

Transco, the Delhi govt owned transmission company, is in a poor shape. Discoms have been irregular in paying Transco the wheeling charges. As a result Trasnco has failed to upgrade and enhance the transmission capacity leading to frequent power outages during peak demands in the summers. Delhi's electricity scenario is a ticking time bomb.

Unless urgent corrective steps are taken to put in place a transparent and accountable mechanism to regulate unwarranted profit making by coal(fuel) suppliers, power generators, transmission and distribution companies, the people of Delhi will soon be staring at a power crisis of nightmarish proportions.

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