SPEECH

FINANCIAL PERFORMANCE OF STATE ELECTRICITY BOARDS*

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I am grateful to Shri Kalpnath Raiji, Minister of State for Power, for providing me this opportunity to participate in the present Conference of State Power Ministers. You are aware that a similar conference was held during the early part of last year. The issues that are going to be discussed at this conference are perhaps not very different from those considered at that conference. Among the issues arising in this connection, one of critical importance is that which concerns the financial performance of the SEBs. In view of the continuing deterioration in the financial health of the power sector, I deem it necessary to dwell on this issue in some detail.

You are all aware that the National Development Council had approved the Eighth Five Year Plan during the first half of last year. The Eighth Plan envisaged a total public sector outlay of Rs. 79,589 crore to realise an addition of 27728 MW of new generation capacity in the public sector during the Plan period. Against this, the States were expected to invest Rs. 46,962 crore and contribute 14870 MW along with the associated transmission and distribution facilities during the Plan period. The Central sector agencies were expected to set up the balance 12858 MW during the Plan. The approved and ongoing projects in the pipeline in the private sector were expected to contribute another 2810 MW capacity. The Eighth Plan also envisaged an addition of another 3000 MW capacity to be set up in the private sector against the various proposals received by the States and which are at different stages of processing. The total capacity addition during the Plan period was thus expected to be around 33538 MW. A capacity addition of this magnitude during the Eighth Plan was considered necessary for meeting the rapidly increasing demand for electricity in our economy and any shortfall in this would therefore lead to serious power shortages towards the second half of the Eighth Five Year Plan. This would call for concerted efforts from the Centre and the States to mobilise resources on the one hand and implement the approved and ongoing projects on schedule on the other. In addition, this would also call for expeditious processing of proposals received from the prospective private investors in accordance with the liberalised policy announced by the Government. The Eighth Plan also envisaged suitable steps being taken by the utilities to improve capacity utilisation of the existing facilities in the power sector, a reduction in the T & D losses and demand management through conservation and other appropriate measures. We do not seem to be going on course with reference to any of these goals as is indicated by a review undertaken by us recently in connection with the formulation of the Annual Plan for 1993-94. I presently propose to dwell on each of these aspects in detail.

You are all aware of the heavy capital investment needed for setting up facilities in the power sector for generation, transmission and distribution of electricity. A new power station of 1000 MW capacity to be set up at present requires an investment of more than Rs. 2,000 crore. The facilities required for evacuating the power generated from such a power station would require at least Rs. 1,500 to Rs. 1,800 crore, if not more. The resources required for this will have to be mobilised partly from within the power sector itself and partly through borrowings from domestic and external sources. If the power sector is to function on a viable basis, it is necessary that the power utilities generate at least 15 to 20 per cent of the investment required for the capacity expansion programme during the coming years by way of net internal resources after fully recovering the costs incurred in operating the existing facilities. The remaining requirement, i.e., 80 to 85 per cent of the investment needs of the

* Address by C. Rangarajan, Governor, at the State Power Ministers' Conference, New Delhi, on January 9, 1993.

power sector could then be met from borrowings of various types including borrowings from the State Governments and public financial institutions. Any excessive dependence on borrowings is not conducive to the viable functioning of the utilities as a high debt service liability will erode their capacity to generate internal resources in the long-run. In order to finance the capacity expansion programme on these lines, therefore, the utilities should not only achieve normative levels of technical performance but also adopt a rational tariff structure to be able to generate the required quantum of surplus funds.

It is in this context that a decision was taken at the last Power Ministers' Conference that the SEBs should so adjust their tariff structure as to earn a net rate of return of three per cent on their fixed assets as stipulated in the Electricity (Supply) Act, 1948. Another decision taken at the last conference was that the States should adopt an all-India minimum agricultural tariff of 50 paise/kwh based on the costs prevailing at that time. In reality, as a result of the escalation that has taken place in the costs of various inputs during the last one year, it is desirable to review the floor tariff for agriculture sector corresponding to the above level. These decisions however seem to remain a far cry as far as many SEBs are concerned. So far, I understand that only four SEBs (viz. Orissa, Meghalaya, Assam and Haryana) have agreed to adopt the floor tariff for agriculture. Haryana has evidently adopted this only for metered connections and the floor tariff is not applicable to unmetered connections which are quite numerous. Some States which had earlier indicated their willingness to increase the agricultural tariff have announced further reductions in the tariff structure leading to an erosion of their internal resources. While it is true that as many as 17 SEBs will be raising additional resources of the order of Rs. 2,170 crore through tariff adjustments during the current year, these additional resources are nowhere near offsetting the cost escalations that have taken place during the year. According to the information available with me, only Maharashtra and Orissa SEBs would be in a position to earn a positive rate of return during the current year. In fact, all the SEBs taken together will have negative internal resource generation during 1992-93. At the all-India level, the negative contribution to internal resources of the SEBs is estimated at Rs. 1,810 crore during the current financial year. The financial ill-health of the SEBs has a cascading effect on the entire power sector. Many SEBs are not in a position to finance even their normal maintenance works, leave alone their ongoing and new projects.

Inadequate funding of ongoing generation projects has led to time and cost overruns. In turn, this has also resulted in progressive diversion of funds from the critical Transmission and Distribution schemes to the already under-funded ongoing generation projects. Shortfalls in investment on T&D works have resulted in high T&D losses and poor quality of electricity supplied to the consumers. Many SEBs have not been able to make timely payment of dues to agencies such as Coal India, Railways, BHEL, NTPC, NHPC, NEEPOO, etc. If this situation is not rectified immediately, the financial ill-health of the SEBs will very soon spread to the other crucial sectors of the economy. You will agree with me that the solution to this malaise lies in improving the performance of the SEBs both through cost reduction measures and tariff rationalisation.

The question of increasing internal resource generation of the power sector also assumes added importance in the context of the difficulties that are being presently faced in securing adequate resources by way of external aid for power project. As far as the power sector is concerned, you are aware of the reduced inflow of assistance from bilateral sources. In so far as multilateral aid is concerned, neither the Central agencies nor the SEBs would be in a position to absorb such assistance unless they improve their own internal resource generation and expedite implementation of the ongoing projects.

In this connection, according to the estimates worked out in the Planning Commission, if all the SEBs in the country adopt an agricultural tariff of 50 paise per kwh, the additional resources that can be generated by those SEBs would be of the order of Rs. 2,102 crore during 1993-94. On the other hand, a rate of return of three per cent adopted by all the SEBs would result in an additional resource generation of Rs. 6,758 crore during 1993-94. This could be compared to the total Central Plan assistance of Rs. 7,028 crore provided to the concerned States during 1992-93.

Against this background, I would appeal to the Chief Ministers and the Power Ministers of the States to accord the highest priority to measures that will improve the financial performance of the power sector. We are still at the beginning of the Eighth Five Year Plan and I am sure that this is a problem that could be tackled effectively if we can act jointly with a sense of urgency and determination.

Another activity where improved functioning of SEBs can play an important role is in the rural energisation (REC — SPA) Programme. This is generally an infrastructural activity, which should normally be funded from the budgetary resources of the Government. NABARD has been providing refinance under the SPA programme which is financed by REC, commercial banks and NABARD on a matching basis. During 1992-93 NABARD has stepped up the allocation under the programme from Rs. 75 crore to Rs. 125 crore at my instance. NABARD will be prepared to maintain the present level of funding during 1993-94 also. This would, however, require that the SEBs organise themselves on commercial lines, generate adequate income and meet repayment obligations to the banking system on time. If there is any default to the banks, SEBs will not be eligible for further financial assistance. The SEBs will also have to accept to borrow at the interest rates prescribed from time to time by the RBI, NABARD and the banking system. It is therefore necessary for SEBs to streamline their working.

There are two other aspects which I would like to refer to at this stage. These are, briefly, the need to improve the average Plant Load Factor (PLF) of the existing thermal power plants and the need to reduce T&D losses. You are aware that the all-India average PLF of thermal power plants in the country had reached its highest level in the recent years of 56.5 per cent during 1989-90. The PLF has remained more or less stagnant at that level during the last two years. While some SEBs have demonstrated high standards of efficiency in operating their power stations, the PLF of the thermal power stations in some States continues to remain at very low levels, even less than 30 to 40 per cent. Similarly, year after year, the T&D losses of the SEBs have also remained very high. This is the case even with such of those States which have large industrial loads which tend to reduce the average T&D losses of the power system.

Even an improvement of 0.5 per cent in the average thermal PLF or a one per cent reduction in the T&D losses at the national level would result in a saving of new capacity of the order of 700 MW and saving of an investment of about Rs. 1,400 crore. Apart from this, the corresponding additional availability of power will also indirectly result in savings in foreign exchange of the order of Rs. 400 crore through reduced liquid hydrocarbon imports. In this connection, I would strongly urge upon all of you to consider taking up renovation and modernisation works in respect of the existing power stations in a systematic manner. Similarly, it is of utmost importance to undertake System Improvement Schemes in the rural and the urban areas. This will go a long way in not only reducing the T&D losses but also improving the quality of power supply to the consumers. The States should allocate adequate funds in their respective Plans to take care of these items fully.

An aspect that needs to be considered by us on priority is the need to accelerate the development of hydel generation which offers valuable peaking support in power system operation. You are aware that as a result of the adverse thermal-hydel mix. many thermal power stations in the Northern and the Eastern regions are presently operating at sub-optimal levels during the off-peak hours. This is a situation that could have been avoided had there been adequate peaking support from hydel generation in these two regions. The Eighth Plan envisages advance action being taken on a number of new hydel projects during the Plan period so as to step up the share of hydel generation at least by the end of the Ninth Plan. This will require additional financial resources at least a portion of which should be contributed by the utilities, as indicated by me earlier. Many States where the bulk of the hydel potential is located may not be in a position to find sufficient resources for tapping the potential. Speedy development of this important source of renewable energy will, in my view, call for a two-fold strategy. A time has come when the States should consider taking up joint venture projects with other States in developing this enormous hydel potential. This will not only accelerate the development of hydel generation in general but also enable the other States which are not fortunate enough to have such an endowment of this natural resource to participate in these ventures and secure a share in the new power generation capacity to be created for meeting their own requirements. These efforts should be supplemented by inviting private sector participation in hydel development wherever it is feasible. I am happy that a small beginning has already been made in this direction by some States in the northern region. For example, the Parbati hydro-electric project located in Himachal Pradesh is being taken up as a joint venture by Himachal Pradesh, Haryana, Delhi, Gujarat and Rajasthan. Similarly, the private sector has also shown interest in taking up new hydro-electric power projects in different parts of the country. I hope that these concepts will get translated at the earliest into tangible action.

I must also refer here to the urgent need to bring in private sector investments for setting up new power projects during the next four years of the Eighth Five Year Plan. As mentioned by me earlier, the Eighth Plan envisages that the private sector would cover the gap between the capacity addition that is required and the additional capacity that could be set up in the public sector during the Plan period through projects to be set up in the private sector. It was expected that the procedures of project clearance and other modalities would be suitably streamlined so that the private sector would be in a position to add about 3000 to 5000 MW of new capacity during the Eighth Plan and much more thereafter. The progress achieved so far in this direction has not been in line with these expectations. I understand that many of the proposals received by the States are awaiting confirmation of fuel linkage. I understand that the same project cleared by one agency for implementation in the public sector will often have to seek clearance from that agency for implementation in the private sector. Wherever such clearances become inevitable, it is necessary to evolve a mechanism that will cut down such procedural delays. I would request the Ministry of Power and other concerned Central agencies to examine the clearance procedures on priority and evolve a mechanism that will ensure expeditious clearance of all such projects within the next few months. Otherwise, I am afraid that the policy changes announced by the Government will take a long time to get translated into action.

During the Annual Plan discussions held recently with the Central and State agencies, it has been found that projects have already slipped by one to one and a half years with reference to the commissioning schedules indicated last year. These delays are, as stated by me earlier, partly due to inadequate provision of funds. As already indicated by me at length, there is no doubt need to mobilise additional resources for the power sector. Apart from this, there are also managerial factors that have contributed to these delays. As a result of all these factors, the costs in respect of many individual projects have escalated steeply and this will have an adverse impact on the capacity addition programme during the Eighth Five Year Plan. In the case of externally-aided projects, the time and cost overruns in project implementation have also come in the way of timely utilisation of the external credit that is available to the country and for which heavy commitment charges are required to be paid. I would request the concerned State Governments to monitor the implementation of all ongoing power projects including the externally-aided ones to ensure that they are implemented on schedule and within the cost parameters approved by the CEA and the other concerned agencies. There is need to induct professionalism into the field of project implementation and monitoring. I would also request the Ministry of Power to analyse and identify the extraneous factors that are responsible for project delays so that the necessary remedial action could be initiated at various levels of the Government.

I would also seek your co-operation in the promotion of decentralised non-conventional energy technologies based on renewable resources. These technologies are environmentally friendly and have a decisive advantage in remote locations over centralised sources of electrictiy. I understand that in some States private investors have shown their interest in taking up projects based on wind energy also. This is a welcome trend. I am aware of the commendable initiatives taken by some States in promoting non-conventional energy technologies. I am sure that the other States will emulate them.

At this stage, I would like to emphasise the fact that the satisfactory performance of the infrastructure sectors including the power sector is of critical importance for hastening the process of economic development and effectively implementing the policy of liberalisation. Irrespective of the various incentives announced by the Government from time to time, one primary attraction for any private sector entrepreneur, whether domestic or foreign, to invest in an industrial enterprise or any other economic activity is the availability of adequate power of the appropriate quality. The continuing unsatisfactory performance of the power utilities in our country therefore causes concern to all of us. Whether it is agricultural production, promotion of industries or any other economic activity, electricity is an essential input that is required for all such activities and these are the activities that generate downstream employment opportunities necessary for economic upliftment of the different sections of the population. I would appeal to all of you to consider this as the primary issue for discussion on the agenda for the present Power Ministers' Conference and adopt an action plan that will seek to achieve this objective in the long run. The action plan should incorporate tangible decisions with definite time schedule for implementation. Otherwise, I am afraid that the very purpose of having such a high level conference of this kind will go unattended to. I am sure that you are already in the process of discussing the various issues in this perspective and are anxious to arrive at such an action programme.

With these words, I have great pleasure in wishing you all success in your deliberations.