



Comments of Council of Power Utilities (CPU) Draft Report on Input for the Subgroup on Financial Health of Utilities and Capacity Building Fund Requirement

Funding Agencies insure that they can get back the fund loaned by them to the utilities within reasonable time. They insist on the bankability of the receiver utilities. At the time of discussing the financial health of the utilities it may be necessary to bring out the reasons for the inability of the utilities to repay the loan and suggest remedial steps.

CPU studies have identified the causes and suggested remedial measures. Some important causes are mentioned below:-

i) Subsidy burden on State Power Utilities

At present nearly 30% of total energy sale of the utilities goes to Agricultural consumers. Against average cost of supply of Rs.3.60/Kwh for energy made available to the consumers, average price of Electricity to Agriculture consumers is barely 42 P/ Kwh. In terms of financial loss of the utilities this causes about 70% of the total financial loss.

Gross Subsidy on energy sales has been increasing over the years because of the policy of the some of the states to provide electricity at subsidized rates to agriculture and domestic consumers. While some State Governments partly compensate the SEBs for the subsidized sales of electricity to agricultural and domestic sectors, others do not provide any compensation at all. The SEBs make an effort to recover the losses due to the subsidization of power supply to domestic and agriculture consumers by way of cross subsidization mainly to the industrial and commercial consumers. Section 65 of the Electricity Act 2003 stipulates that if the State Government requires the grant of any subsidy to any consumer or class of consumers in the tariff determined by the State Commission under section 62, the State Government shall notwithstanding any direction which may be given under section 108, pay, in advance and in such manner as may be specified, the amount to compensate the person affected by the grant of subsidy in the manner the State Commission may direct, as a condition for the licence or any other person concerned to implement the subsidy provided for the State Government.

Provided that no such direction of the State Government shall be operative if the payment is not made in accordance with the provisions contained in this section and the tariff fixed by the State Commission shall be applicable from the date of issue of orders by Commission in this regard.

It is suggested that the power supply utilities may be relieved of the burden of providing heavily subsidized power to any category of consumers. Instead the

Dept concerned e.g. irrigation and welfare may give such subsidy to the consumers or compensate the power supply utilities for such supply.

ii) Viability of the strategy of CPSU capacity creation

Planning Commissions observation on this issue in the Mid Term Review of Xth Plan are shown below:-

“One consequence of the financial unviability of the state sector is that creation of power capacity is being led by central sector PSUs. Based on current plans, the CPSUs are estimated to account for some 53 per cent of the energy generated by the end of the Eleventh Plan. It is also likely that all inter-state transmission remains under CPSU control even by the end of the Eleventh Plan. This dominant role of the CPSUs is the result of a number of asymmetries. One of these relates to the preferential payment arrangement. Another relates to the fact that the present system guarantees the CPSUs post tax returns of 14/16 per cent. In contrast, state regulators sometimes do not provide any returns to the state’s own power sector facilities or else approve tariffs that effectively yield zero returns of returns well below those provided to CPSUs. Such an approach is necessitated by the need to limit increases in tariffs paid by consumers while meeting payment obligations to the CPSUs under the tripartite agreement. The result is that the state utilities are starved of investible resources required to address the problems of the distribution sector that remains under their control. The financially sick state utilities are forced to borrow funds for their own investments and this compounds their financial woes.

This arrangement clearly cannot be sustained. A reduction in AT&C losses from the current level of 40 per cent plus to a manageable 15-20 per cent level is essential. In the absence of such a loss reduction, the state utilities cannot continue to pay CPSUs even for the current level of purchase. Regulating supplies or enforcing the guarantee under the tripartite agreement to access funds from Central devolutions to the states, on a sustained basis, are not realistic options.”

This aspect may also have to be considered in suggesting capacity building fund requirement.