Power sector data, an area of darkness

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Need for clarity on what resulted in electricity distribution companies being saddled with debilitating losses, the real quantum of these losses and why despite many bailouts the lessons from the past lessen with time.

Since 2001, the accumulated loss of electricity distribution companies has been comparable to 2% of India's GDP. Clearly, repeated bailouts, investment programs and reform efforts have not affected loss accrual, growing as robustly as the Indian economy. Table below outlines financial assistance schemes for distribution companies in the past and compares them to other public expenditures at the time.

Period	Scheme Magnitude	Comparable to
Up to 1996	4 Schemes.15% annual deduction from Central Plan Assistance	Annual Central Plan assistance for roads, bridges
2001	41473 crores	Expenditure on Sarva Shiksha Abhiyan and Mid-Day Meal Scheme from 2002 to 2007
2003	No estimate as proposed transfer scheme not completed as yet	
2012	About 1.19 lakh crores	Expenditure on wages in MNREGA scheme since its inception (2006-2014)
Post 2012	Accumulated liabilities estimated at Rs.63,000 crores	If financed, comparable to planned subsidy for rural electrification, feeder separation and network augmentation from 2012 to 2022.

In March 2015, accumulated losses were estimated at Rs. 2.5 lakh crores. For an issue considerable in scale, magnitude and persistence, there seems to be little information and analysis on the reasons for such high losses and how early warning mechanisms failed to prevent this crisis.

The 2011 report under the chairmanship of V.K. Shunglu is perhaps the only effort in recent times to assess the distribution companies' financial predicament. Among other contributions, the report presented a comprehensive review of accounts which highlighted the poor quality of financial data. Since 2003, Electricity Regulatory Commissions were to assess past performance based on audited information to determine prudent costs to be paid by consumers. Even though tariff determination has become an annual exercise, 'truing-up' or assessment of past performance and reconciliation with audited accounts is at best intermittent. In most cases, this is because audited actuals are unavailable. When they are, it is often not disaggregated to provide crucial insights.

To understand this rapid loss accumulation, data on what caused losses and what steps were taken by the utility to continue functioning despite staggering losses is crucial. Some losses could be due to State Government inaction leading to non-receipt of promised subsidy payments, delays in implementation of the transfer scheme etc. Losses could also be due to accumulating expenditures deemed avoidable by the regulator and thus disallowed for recovery from consumer tariffs. More often than not, these costs arise out of inefficient practices of the distribution company such as failure to meet regulatory norms, poor collection efficiency and continued purchase of high cost power. Possible financing of such costs via bailouts and future tariff increase show that such regulatory checks are ineffective in holding the distribution companies' accountable. It also shows that such costs, if not borne by the consumer will ultimately be borne by the tax payer. Further, statistics on the share of interest payments, short-term liabilities in total losses and the quantum of outstanding payments to power sector agencies could point to myopic strategies to finance current operations. Therefore, disaggregation of loss amounts based on cause of accrual can point to the nature and scale of issues ailing the power sector, so that it can be meaningfully addressed.

There have been 3 schemes since 2001 to tackle mounting liabilities of distribution companies and they all seem shrouded in mystery. The 2001 scheme and the 2012 scheme to finance debt via State Government backed bonds were chock-full of conditions intended to check unsustainable practices. Without getting into issues in scheme design, absence of publically available reports on implementation status, compliance, penalties, funds allocated, liabilities cleared etc. makes any assessment impossible. Additionally, there has been no documentation of important lessons learnt, suggestions for mid-course correction or for design of similar schemes. While unbundling post Electricity Act 2003, State Governments were to take over the then accumulated liabilities of the erstwhile electricity boards to provide the newly formed distribution companies with a fresh start. Even though it was part of such a major reform effort in the sector, the details of these transfer schemes, it's design, implementation status and the present treatment of such liabilities in various states is not clear. Given the lack of information, it is possible that a major portion of the present losses were also part of past schemes, which have continued to persist with mounting carrying costs. To address mounting losses, many regulators have allowed for gradual recovery of past losses via tariff increase by creating regulatory assets. It is unclear if losses being paid for via regulatory assets are also being financed under Central and State Government sponsored schemes.

With the proposed amendment of the Electricity Act proliferation of supply licensees, open access consumers and increased uptake of renewables is imminent. Thus, the loss of high paying consumers in the immediate future will further affect the financial position of these companies. Even if the Central Government is not keen to design another bailout, it can play a key role in lending more clarity to the predicament of the distribution companies which will inevitably have to be addressed by State Governments. Therefore, any future efforts to address burgeoning losses must be preceded by a transparent assessment of factors contributing to loss accrual and a review of past and present efforts to provide support. Regulatory Commissions should publish annual assessment reports of the magnitude and break up of accumulated losses based on audited actuals. Additionally, the Ministry of Power should publish a review of previous financial assistance programs. As lending agencies also have a major role to play in the crisis, there is a need for a central publically accessible repository which will house information on loans and status of repayment. If issues responsible for loss build-up are not identified and addressed, we will have to keep apportioning as much as 2% of the country's GDP for power sector bailouts at severe cost of development and economic growth.

Ann Josey

Research Associate
Prayas (Energy Group)
ann@prayaspune.org