

# Switching On

## *Reforms are needed urgently to deal with power sector woes*

A study of the Indian power sector done by Universal Consulting may come as no surprise, but that does not make it any less ominous. Quite apart from the capital and operational costs of power back-up equipment, the study has posited the opportunity costs of power shortages in the last financial year as Rs 2,89,000 crore or a 6 per cent loss in GDP terms. An earlier study had pegged the direct loss in the same period at Rs 43,205 crore. In that context, looking at our northern neighbour should be an eye-opener. On an average, China adds 100GW of power capacity annually. India has been unable to add even a tenth of that in any single year. This is the case despite various government initiatives to rationalise power tariffs and simplify relevant laws over the past decade.

The problem is that the power sector's lacunae are not isolated issues. Currently, the country's installed capacity is 1,51,073 MW. Of this, only 96,000 MW is available for consumption, due mostly to power theft and transmission losses. Inefficiencies on the demand side match those on the supply side, with agricultural and domestic subsidies distorting consumption patterns and feeding into a shortfall that, on an average, can be anywhere between 10 and 14 per cent annually. As an ancillary effect, this unsustainability scares off potential foreign investors. Add in the problem of insufficient port facilities for natural gas and the scope of the problem becomes clear.

There have been sporadic displays of the political will needed to push through reforms such as the Electricity Act of 2003 and the National Electricity Policy. One major development in this regard has been the unbundling of several state electricity boards into multiple entities dealing with generation, transmission and the like. But more is needed. The initiative must be followed through to its logical conclusion, the privatisation of the boards' assets. Private players must be encouraged to become stakeholders in distribution networks as well, whether through direct privatisation or by following a franchisee model. And a fully functional power trading market would go some way towards offsetting shortfalls in various regions.

Despite private players' growing role in the sector, they are often held hostage to Centre-state disagreements on these issues. The increased quantum of investment over the past few years will serve for little if regulatory bottlenecks funnel investors into playing catch-up. Demand is set to grow as penetration into rural areas increases. Delayed reforms will ensure that the shortfalls increase concurrently. And with the correlation between GDP growth and increase in power capacity pegged at close to 100 per cent, that is not the path a country with increasing global aspirations can afford to go down.