

# Counting the cost of India's blackouts

Is it better to pay more money for more electricity, or keep prices low and look forward to blackouts that will conk out offices, factories and homes in India? That is the question that lies at the heart of an ongoing debate about whether authorities should allow utilities Adani Power Ltd and Tata Power Co Ltd to raise their tariffs on existing contracts to clients, to compensate the companies for the domestic coal supply shortages and the rising cost of buying coal from overseas.



Much of it a relic from before the 1991 economic reforms that kick-started the India growth story, the country's infrastructure is screaming out for more investment to fix pot-holed roads, modernise the railway network and build more power plants. But unable to match the spending power that the likes of China have, the Indian government has turned to the private sector to fund much of the new infrastructure it needs. Indian politicians must therefore strike a balance between allowing the private sector to make money, while at the same time protecting the interests of customers (and voters) in a country where hundreds of millions live below the poverty line.

Is it better to have state-run, pot-holed roads, or have swish six-line highways that charge a toll that becomes unaffordable to some? What's more, to what extent should the government go to protect infrastructure firms – vying with one another for project bids – when such projects run into trouble?

At the start of April, Adani was granted permission by the federal power regulator to allow it to charge “compensatory” tariffs to existing customers in Gujarat and Haryana, after a spike in the price of Indonesian coal caused it to incur heavy losses. Tata Power won a similar ruling two weeks later. Adani has already seen the ruling challenged by the Haryana state, which argues that Adani should stick to its original agreement. That has sparked fears that the ruling – a potential game-changer for the sector that has been battered by fuel shortages and distribution losses – could get bogged down in legal battles.

The lawyer who represented Adani in the case, Amit Kapur of J. Sagar Associates, said Adani's original bid for the project was premised on the company using domestic coal. But the mine meant for Adani never got allocated, which forced the company to rely on imported coal. When Indonesia later jacked up its prices, the plant started to incur heavy losses. Adani said in its petition it

could not continue to run the plant for more than two or two-and-a-half years if it continued to bleed cash, Kapur said.



“We don’t want to profiteer out of it, but we can’t possibly continue to incur this kind of loss because it will wipe out our whole equity,” Kapur told Reuters.

Both Adani and Tata have made similar arguments to support their case.

Is it really in India’s long term interests, they argue, to let already-built power plants shut down because of unsustainable losses? Because that means, they say, that no one will get the electricity India needs and the country will have to spend even more money building new plants that may then also be forced to shell out cash for expensive imported coal?

“By any standards, a project which is ready, on the ground and running, is far better than a project which is not even started,” a source close to Tata Power said. “It’s a no-brainer that this increase is still justified.”