

Coming full circle – The case for privatization of Power Distribution.

*Power distribution in the country which was pioneered by private entrepreneurs in the early 1900s and nationalized post 1948 should be returned to the private sector via Private-Public Partnership or PPP says **C A Colaco***

Tucked away in a corner of Mumbai's Horniman Circle is No. 17-B , a deserted first floor office, all that remains of the once well known Amalgamated Electricity Company Limited , the pioneering corporate of the 1930s which after due process had been awarded the Bombay Government's distribution licences for supply of electricity in the areas of Bhiwandi, Chalisgaon, Jalgaon, Bhusaval and Malegaon.

Power distribution and supply has never been an easy business, more so in those early days. A wires network had to be put in place in the compulsory area of supply within 3 years. Failure to do so could invite revocation of the licence. Thereafter, among other onerous duties , a licensee was obliged to provide supply within a month of an application .

Few details are available about these licencees in the years leading up to 1978 but the fact of their survival in a highly regulated and demanding environment suggests that they worked hard at their business and fulfilled their various obligations. Power was supplied to consumers, bills were issued and dues collected. Tariffs were fixed by the Government , profits were permitted and dividends could be paid to shareholders.

Then came the Electricity (Supply) Act , of 1948 which set up the State Electricity Boards (SEBs) and nationalized the power sector . Only a handful of companies in Mumbai, Kolkata, Ahmedabad and Surat were allowed to continue under private ownership. The rest were mostly taken over when their licence terms expired. In Maharashtra alone, 91 licencees were taken over between 1958 and 1987.

And so on 1 October 1978, at the end of its licence term and for no fault of its own, Bhiwandi , the last remaining licence of the Amalgamated Electricity Company (the others having been taken over earlier) was taken over by the government's Maharashtra State Electricity Board.

The rest as they say is history. In a short span of 28 years , by 2006, the same Bhiwandi had come to acquire a certain notoriety. Bhiwandi 'circle' was by now amongst the worst in the state and was singled out to be returned to private sector management for setting it right . T&D losses were now 49% ,

collection efficiency 63% and put together these made the Aggregate Technical & Commercial (AT&C) loss a staggering 68%.

The handover of management to Torrent Power, the private licensee, took place on 26 Jan 2007 and in the space of a year and a half since, a remarkable turnaround has been achieved. T&D loss of 49% has been brought down to less than 21% by May 2008. From this flying start it seems certain that the 10 year target of 30% loss reduction will indeed be met. The losses might even be brought down to 9.26% as in this private licensee's home base at Ahmedabad.

And so the wheel has turned full circle for power distribution in Bhiwandi.

Likewise the transformation of Delhi is another example of the same phenomenon. The losses in Delhi in 1953 were reported to be as low as 7%. Thereafter in 1958, DESU (like Mumbai's BEST) was formed. In 1997 DESU became DVB, the SEB for Delhi. By the year 2000, the loss level in Delhi had exceeded 50%. Commercial losses were an unsustainable Rs 1103 crores.

This is the background that led to the privatization of Delhi's distribution using a model which is a vast improvement on the one tried earlier in Orissa. DVBs distribution was divided into 3 companies. The privatization process was completed by 2002 and in the 6 years since then it has been a resounding success. One of the 3 companies - NDPL (North Delhi Power Ltd) - has successfully reduced AT&C losses from a level of 53% to 18.5% at present.

By contrast with these success stories, state owned power distribution in the country continues to labour under the burden of AT&C losses exceeding 35% and commercial losses exceeding Rs 26000 crores. This is notwithstanding some improvements in AP, Gujarat and Karnataka.

The most convincing evidence though in favour of private distribution is the outstanding performance of the private (and one municipal but formerly private) distribution licensees of Mumbai, Kolkata, Ahmedabad and Surat. Their robust business model has sustained over a century. They have met all the aspirations of their stakeholders and the level of losses are in line with global benchmarks. Further, two of these companies have taken up the challenge of improving the performance of 3 Delhi distribution entities mentioned above and have achieved (and in case of NDPL bettered) the targeted loss reduction.

Yet another reason why the state should relinquish ownership and control of power distribution is that Government's skilled managerial resources could be

better used in governance related tasks . These include facilitation of infrastructure projects , managing urban renewal , regulatory functions in a liberalised economy , upgradation of the education system, water management and employment generation schemes just to mention a few.

The time has now come to bite this bullet. Hard evidence supporting private distribution is staring us in the face. States have to let go of the power sector. Sub optimal and half way measures like the “Franchisee” scheme will only lead full circle again. And going by the past it is unlikely that the sums being poured into APDRP will ever produce the desired results.

On the other hand, Indian entrepreneurship has proved its mettle in the global arena and in the power distribution space. This force is waiting to be unleashed. If given its due place in the power sector it will not only bring about restoration to health but will transform power distribution into a world class business capable of supporting sunrise services , International finance, manufacturing and IT centers.

There is no more time to be lost. For starters, distribution in state capitals should be bid out to private – public partnerships as in Delhi, followed by distribution in all cities with population above one million. For the rest of the State, distribution must be broken up district-wise , division -wise, or municipal corporation wise and then bid out as above .

If the results achieved in Bhiwandi and Delhi are anything to go by, then privatization of distribution might turn out to be even better for India than the nuclear deal and thus equally deserving of political support.

(The author is an Advisor at Tata Power. Views are personal)

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