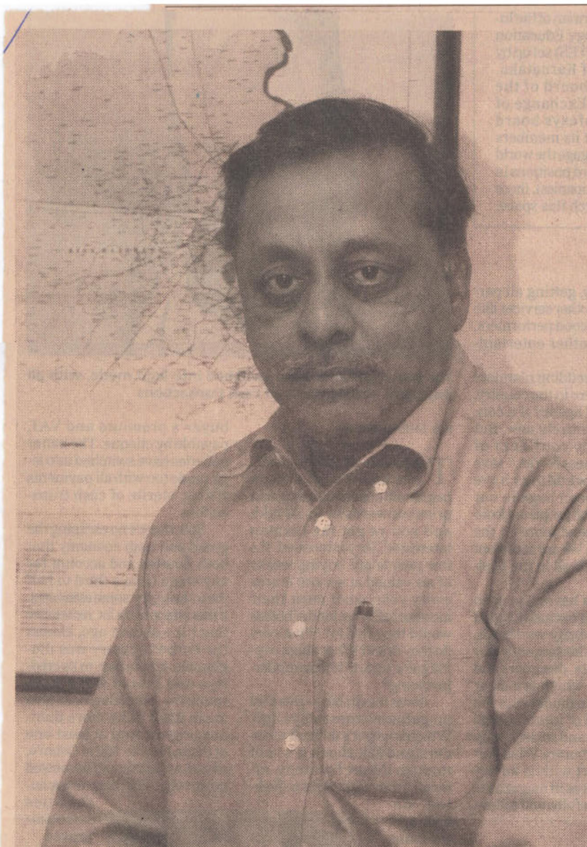

Q & A | LALIT JALAN

'Blaming us is easy'

Reliance Energy Limited's Executive Director Lalit Jalan is used to functioning under fire. Eighteen months ago, this Wharton MBA who was on both the Dean's and the Director's Honours list, was flown in from Mumbai to run BSES' Delhi operations as well, after Delhi's citizens and its chief minister were up in arms against the poor functioning of the two Anil Ambani firms (BRPL and BYPL) that supply nearly 70 per cent of Delhi's power. Today, the chief minister has once again said the BSES performance is below par and one of Jalan's firms, BYPL, says it will make losses of Rs 2.5 crore a day if it is not bailed out. Jalan spoke to ***Sunil Jain*** *about the Delhi power situation as well as that in the country. Excerpts:*

The chief minister has said both BRPL and BYPL's performance is below par. Your theft levels are 31 and 40 per cent respectively as compared to the Tata-owned NDPL's 24 per cent. After five years of guaranteed returns and subsidised power supplies from the government-owned Transco, you still want a subsidy.

It's easy to blame us. Theft reduction isn't easy. We were promised police protection, special courts and special police stations five years ago. We got special courts just last year and will get CISF protection some months from now — our people are tied up and beaten when they go to cut off the power of those caught stealing in many places. In any case, we have met the bid target of theft reduction.

But why do you want a subsidy when the Tatas don't want one?

We're not asking for a subsidy. Last year, BRPL paid Rs 2.45 per unit of electricity it got from the government-owned Transco, BYPL Rs 2 and NDPL Rs 2.25, and all of us charged an identical tariff — the input prices were adjusted to take into account the paying capacity of our customers and BYPL had the poorest mix. Now, BYPL's power purchase costs will go up to Rs 2.5 a unit, so we need to charge more to account for this — we have to increase prices by more since our theft levels are around 40 per cent. We've said either allow us to charge this, or compensate us. BYPL began with a higher initial theft level and so we have to be allowed to charge a higher price to compensate for this. As for BRPL, we can charge what NDPL will, a little lower than the 2006-07 tariff.

Mind you, Delhi has the lowest power tariffs in the country. There was a 56 per cent hike in tariffs in the BEST areas in Mumbai last week (there will be a similar one in our areas soon) but there was no protest, no stone throwing, no blaming anyone ... when our input costs go up, they have to be passed on. Delhi is richer than Mumbai but while the highest residential tariff in Delhi is Rs 4.4 per unit, that in Mumbai is Rs 7.5 — and this is despite Mumbai's loss levels being around 11 per cent versus Delhi's 34 per cent or so. In Mumbai, the input costs for BEST are around Rs 3.75 versus around Rs 2.5 in Delhi.

But if you'd reduced your theft levels to NDPL levels you wouldn't need to hike tariffs. Even NDPL faces resistance when it catches thieves ...

There is no doubt NDPL has done well in some areas, such as laying down insulated cables which make power theft more difficult — we've also done this in some areas and have introduced High Voltage Distribution Systems (the voltage flow of 11,000 volts instead of the usual 220, and this makes theft a lot more difficult) in 430 un-metered colonies. But let's put things in perspective.

One, the Abraham committee itself recognises that reducing theft is not so easy — it says if your theft levels are 40 per cent, you cannot expect to reduce this by more than 4 percentage points per year even after aggressive measures. In any case, every one percentange point reduction in theft levels reduces consumer tariffs by around 4-5 paise per unit, so if BYPL was at NDPL levels of theft, this would reduce our costs by 70 paise — but our distribution costs, at 80 paise a unit, are 30 paise less than theirs, so the eventual effect of us coming up to their levels is just 40 paise a unit.

Two, a big thing is made about guaranteed returns to us. Our equity in both BYPL and BRPL is Rs 1,000 crore, so a 16 per cent return means Rs 160 crore over around 15,000 million units of power supplied, or 11 paise per unit, of which 5 paise is the Delhi government's share.

Those small numbers add up to quite a lot when it comes to consumer tariffs — 40 paise means around 10 per cent of the average tariff today.

Yes, but the point is that reducing theft is very difficult ... the average for the country is around 45 per cent today and no SEB is able to reduce this by more than 1 percentage point a year, while we reduced it by 17 over five years (actually it is higher since the opening loss levels were underestimated by the government). And the increase due to higher energy costs is more responsible for the higher tariffs than our so-called inefficiencies.

The government will not allow you to hike tariffs by the one rupee or so that you want. So what is the end-game?

That is in sight. There is 300 MW of unallocated power, so we are likely to get some part of this ... we can sell this in the winter since we will be energy-surplus then, and recoup some of our losses — we will lose Rs 2.5 crore a day for the first few months and Rs 270 crore for the full year. How much we will recoup will depend on how much extra power we get.

At the national level, why have power reforms failed to deliver? The peak shortage is around 15 per cent. Is it because of lack of reforms such as open access?

Fifteen per cent is a fictitious number since it represents the shortage in areas which are electrified — large parts of the country are not electrified. The power minister has said India needs another 70,000 MW of power capacity, which is a 45 per cent increase over current levels — China will add 90,000 MW this year while we did 24,000 MW in the last five years! Open access is important, but it is useful for setting up power only for those areas which have paying capacity. Even if you have open access, who will set up generating facilities for Bihar which has huge theft levels? Our real problem is different.

And that is?

First, apart from a few pockets, there have been no distribution reforms and so theft levels remain high and therefore, few want to invest in new generation or transmission capacity. Between us and the Tatas, we've invested Rs 4,000 crore in Delhi in just distribution, without adding a single MW of capacity! If Delhi's demand increases to 10,000 MW over the next five-six years, this alone will require another Rs 40,000 crore or so of fresh investment in generation and distribution capacity.

And as for adding generating capacity, you don't get land for new power stations, there is no fuel, and there is a huge transmission capacity problem. Not even one coal mine in the country has been assigned to a power plant (most of the ultra mega power projects are to be based on imported coal), there is no gas, and the environmentalists don't allow hydro power to come up. In our case, we wanted to set up a 4,000 MW imported coal generation plant in Maharashtra but haven't got the land for two years now. We applied for land in Delhi a year ago, and we are not being allowed to add 1,200 MW at Dahanu since it is supposed to be environmentally fragile.