

Our Delhi Letter

Higher Power Rates for Industry

THE focus of attention at the annual conference of State Ministers of Irrigation and Power in New Delhi last week was on power rates. As for irrigation, there was nothing very new about the 'recommendations' made. Large irrigation projects have to be speeded up and, at the same time, medium irrigation projects "must find a due place in the Fourth Plan": also, regional imbalances have to be rectified. The only specific decision reached was that in the case of medium irrigation schemes only projects costing more than Rs 5 crores would have to be cleared by the Centre in future. Till now the limit was Rs 1 crore. Besides, there is, of course, the usual committee to explore "measures of improving the financial returns of the irrigation projects". The committee is headed by S Nijalingappa, Chief Minister of Mysore.

The proposal to raise power rates, particularly for industrial and commercial consumers, however, has raised a hornet's nest. Several of the assembled Ministers protested that if power for industry was made costlier, the tempo of industrial development would be slowed down. Ultimately it was decided to appoint another committee to "explore all avenues of improving the financial position of the (electricity) boards". The committee consists of Ministers from Bihar, Gujarat, Madras, Maharashtra, Punjab, Rajasthan, U P and West Bengal and four representatives of the Union Irrigation and Power Ministry and the Central Water and Power Commission. Sources close to the Union Ministry of Power believe that the proposal to raise power rates will be approved by the Committee.

World Bank Mission's Views

The proposal for a change in the pattern of power rates has been mooted by the Planning Commission on the basis of the views expressed by the World Bank Mission last year. The State Electricity Boards have been constituted by the State Governments under the Electricity (Supply) Act, 1948, to rationalise the production and supply of electricity and generally to assist power

development. The Boards have been charged with promoting co-ordinated development of generation, supply and distribution of electricity within the particular States, particularly in areas which are not served by any licensee. The Boards are thus expected to cater to the underdeveloped areas, even though this may be unremunerative. This makes it all the more necessary that the Boards should have sufficient funds at their disposal.

Industry Being Subsidised

Under the Electricity (Supply) Act, the Boards, so far as practicable, and after taking credit for any subventions from the State Government, are required to carry on their operations in such a manner that they do not run at a loss and for this purpose they are required to adjust their charges from time to time. In formulating their rates, the Boards are required to take into account operational, maintenance and management expenses and capital charges, that is, interest plus depreciation. In addition they are required to contribute towards the general reserve at a rate not exceeding 0.5 per cent of the cost of fixed assets, subject to a maximum accumulation not exceeding 8 per cent of the original cost of the fixed assets.

An examination of the tariffs of the different Boards shows that consumers are grouped into certain broad categories, namely domestic, commercial, agricultural and industrial, on the basis of their load characteristics. Industrial consumers are further grouped into small, medium and large categories. The highest rates are charged for domestic light and fan and heat and small power. Next come the rates for commercial light and fans. Industrial rates are graduated with reference to their demand load factor and other characteristics of supply. Small power loads up to 20 kW may have a load factor of up to 20-22 per cent and medium power loads, which range from 21 to 100 kW, may have a load factor of up to 25-30 per cent. In case of large loads of 100 kW and above the load factors are generally above 30

per cent and may go up to as high as 60 or 70 per cent. In some industries, such as fertilisers, electro-chemicals, electro-metallurgicals, which fall into a special category by themselves, high load factors of 90 per cent and above are generally expected.

Industrial consumption accounts for as much as 70 to 75 per cent of the total power sold in the country.- An examination of the electricity rates and costs shows that industrial consumers, particularly high tension industrial consumers, get their supplies at below-cost rates. This in effect amounts to the State giving a subsidy to industry.

The Platoning Commission has suggested that commercial rates should as a rule be a little higher than domestic rates, the reason being that commercial consumers are in a position to recover all their working expenses, including electricity charges, from their customers. But in the case of domestic consumers, the charge is an item of expenditure from the family income. For agricultural loads the rate of 9 nP per cent has been recommended even though the actual cost of supply for irrigation is generally higher than that. This is in keeping with the Government's objective of extending the benefits of electricity to the rural areas. The subsidy to agricultural consumers is justifiable because, unlike industrial consumers, high rates are likely to be a severe burden for them and they may just have to go without electricity if the rates are beyond their means. • But the rates for industrial consumers should be such as at least to cover costs in full.

No Case for Low Rates

The views of the World Bank Mission on this question have greatly influenced the Government's thinking. The Mission, it will be recalled, had stated in its report:

"Low power rates, particularly for large industrial users, have been advocated in India as a means of stimulating investment and keeping production cost down. This policy might have had a favourable psychological

effect in the past, though it can claim very little real effect, since power costs are, in the majority of cases, only a very minor fraction of the total industrial costs. Today, however, the fact of the matter is that investment is held back by lack of power in most areas, and that industrial productive capacity is not fully utilised in some areas for the same reason. Most industrialists have come to realise that availability of power is much more important than the price charged for it.

'The policy of low tariffs, and particularly for industrial users, is not a stimulus to growing investment and larger production, but it does make difficult the accumulation of funds for the further expansion of generating capacity, which is so urgently needed. If the average power rate was increased to a level of Re 0.116 per kWh, the increased profit that would be brought about over the whole five years of the Third Plan has been estimated at around Rs 500 crores. This can be considered one measure for the loss incurred by the power industry in India as a result of present policies — a loss the Indian economy certainly cannot afford at this time".

In the U K the difference between the rates for domestic, commercial and large industrial consumers is only 1 to 2 nP per unit while in India it is about 16 to 19 nP. As about 70 to 75 per cent of the total power sold in the country is consumed by industrial users, even a small increase in the rate is likely to yield considerable additional revenue without materially affecting costs since the cost of electricity does not exceed 4 per cent of the total cost of production of industries.

The Politics of It

The Planning Commission has pointed out that there is competition now among the States to attract large industries and low and even uneconomic electricity tariffs are consequently offered. It has been suggested, therefore, that the Electricity (Supply) Act should be amended to require the State Electricity Boards to get their tariffs for Industrial and other large consumers approved by the Central Electricity authority.

Another major political issue involved in changing the power rates, the World Bank Mission's report had pointed out, is the attempt by the States to raise general purpose funds by means of duties on power consumption. Since power companies are subject to income tax, a fraction of the increased revenue brought about by higher tariffs would accrue to the Centre, and the introduction of electricity duty is a way in which State Governments try and secure the whole additional revenue for themselves. There is no doubt that the States are helped in pursuing this policy by the fact that they are able in any case to obtain from the Centre whatever money they need for the expansion of power without being required to use revenues from electricity duties for this purpose.

Need for Fresh Thinking

The World Bank Mission had estimated the average revenue per kWh of electricity sold by public undertakings in 1959-60 at Re 0.0747. In addition to that, State duties on consumption of electricity amounted to, on the average, Re 0.0007 per kWh. The average price paid by users of electricity was, therefore, about Re 0.082 per kWh. On the other hand, the average cost of generation and distribution was estimated at Re 0.088 per kWh in the case of hydro-electric plants and Re 0.137 per kWh in the case of thermal plants, or Re 0.116 per kWh on average. This estimate is based on a 10 per cent interest on capital employed, 2 per cent straight line depreciation and on assumptions of capacity utilisation realistic in the present Indian situation. On the basis of these figures therefore, an average rate of Re 0.12 per kWh would be just sufficient to equate the average revenue from electricity sales to the average cost of generation and distribution. An average rate of Re 0.12 kWh hour would be some 40 per cent higher than the average rate prevailing in 1959-60, including duty.

Not surprisingly, the suggestion that industrial power rates should be raised has been opposed by the Federation of Indian Chambers of Commerce and Industry which has advanced the argument that such a step would adversely affect industrial growth and raise industrial costs. This is a specious argument

considering what a small proportion of total industrial costs is accounted for by electricity. The F I C C I has gone further and complained that even the existing tariffs are too high! It is strange that the spokesmen of private industry, who swear by the World Bank Mission's report on other matters, find its recommendations on power rates unacceptable.

The Finance Minister has said repeatedly that the Government's attitude to industrial development in the private sector, in such matters as price controls, etc, is being reconsidered. This process would be incomplete without simultaneous fresh thinking on the subject of subsidies to private industry at the expense of the public exchequer through, for instance, below-cost power rates and railway freights. Private industry in this country today operates in the most favourable of circumstances in many ways, protected from both domestic and foreign competition and assured of a large and expanding market. Further incentives in the form of fiscal concessions or subsidised power and transport, among others, are no longer necessary and lack any justification whatsoever.

T I Cycles

T I Cycles of India, Manufacturers of Hercules and Phillips bicycles, have completed on December 18, 1963, the production of 2 million bicycles. To mark this creditable achievement, the two-millionth bicycle was presented to the Red Cross Society by Shri A M M Murugappa Chettiar, Managing Director of Tube Investments of India. Shri Chettiar has also announced the Company's decision to present a new bicycle to each of the recognised universities in the country to be awarded as a gift to deserving students nominated by the Vice-Chancellors.

T I Cycles commenced manufacturing bicycles in 1952 and produced the second million bicycles in considerably less time than its first million. The Company has the collaboration of Tube Investments of U K who are the world's largest manufacturers of bicycles.