

Services

The Centre on June 29, 2005 presented the draft National Urban Transport Policy to states and union territories seeking to promote the public transport system over private vehicles. Under the policy, which would see increased funds allocation by the Centre for establishing modern transport systems, each city would develop its integrated master plan keeping in view its future growth around a pre-planned transport network.

The National Urban Transport Policy will encourage each city with a population of more than 40 lakhs to start planning for a mass transit system adopting a technology that would best suit city requirements in a 30-year time-frame. Possibilities include buses on dedicated corridors, an elevated sky-bus and monorail system, electric trolley buses and underground metro systems. Even cities with population of 10 lakhs and above could be considered for some systems while the Government would encourage use of "non-motorised systems" like bicycles and walking throughout the country by building separate tracks and pedestrian paths. This would be given priority under the National Urban Renewal Mission which seeks to provide Rs 50,000 crore to states in the next five years.

With a view to promoting Inland Water Transport (IWT) so that its share in overall inland cargo movement can go up further, the mode can gradually increase its role as compared to the Railways and road etc. the government has

decided to take certain policy measures viz.:

- To empower IWAI to raise tax-free bonds
- To enlarge the role of IWAI to enter into commercial/joint ventures
- Private sector participation has been envisaged in the areas of ownership and operations of Inland Water Transport fleet, construction and operation of river terminals, etc.
- 100 per cent tax exemption to investors as in the case of National Highways.

The above measures would help IWAI to mobilise the required resources by attracting investment from the private sector and also by forming joint ventures for development of waterway infrastructure facilities and cargo handling, so as to augment the capacity of IWT to cater to increased need of cargo movement.

The National Highway Development Programme (NHDP) has made steady progress, and 5,172 kms of National Highways have been four-laned till January 2005 under NHDP I and NHDP II. NHDP III, which is scheduled to take off in the next fiscal, will target selected high-density highways not forming part of the Golden Quadrilateral or the North-South and East-West corridors. The outlay for National Highway development has increased from Rs.6,514 crore in 2004-05 to Rs.9,320 crore in 2005-06.

Indian railways witnessed impressive growth in the ongoing fiscal. In August, 2005 revenue earning freight traffic stood

The draft National Urban Transport Policy encourages cities with more than 40 lakh people to start planning for a mass transit system

at 51.6 million tonnes, 11.6 per cent higher than 46.2 million tonnes transported in the same month in 2004. However, during April-August 2005 revenue earning traffic stood at 262.91 million tonnes, i.e., an increase of 10.9 per cent vis-à-vis 237.11 million tonnes and a rate of growth of 6.3 per cent in the corresponding period in 2004. The high freight traffic has been contributed by eight major commodities viz., coal, fertiliser, cement, petroleum products, foodgrains, finished steel, iron ore and raw materials to steel plants. Coal accounting for 44.2 per cent of the freight traffic, grew at 8.3 per cent. However, the highest growth was witnessed by the other goods category which grew at 28 per cent as compared to 3.2 per cent growth witnessed in the same period in 2004. It was followed by raw material to steel plants, iron ore for exports and pig iron and finished steel from steel plants at rates of growth of 23.7, 18.5 and 15.2 per cent respectively. Food grain movement witnessed a negative growth pegged at - 4.3 per cent.

During the same period, railway earning from freight loaded scaled up 18.3 per cent to Rs 14,125 crore as compared to 8.5 per cent in the corresponding period in 2004. Revenue from coal, accounting for 41 per cent of total earning from freight, rose by 14.2 per cent to Rs 5,789.6 crore. While revenue from other goods increased by 37.5 per cent to Rs 1,898 crore, POL and cement traffic contributed Rs 1,171 crore and Rs 1,093 crore, respectively during April-August 2005.

Despite the above achievement, the Railway's reserve fund for meeting expansion and implementation expenses remains a constrained one. Given the competitive pressures, IR needs to restructure long term planning of its staff cost to make use of the current need of expansion and modernisation.

The growth of cargo traffic handling

in ports has shown continuous improvement since 2003-04 and during April-August 2005 it has registered a growth of around 14 per cent. The high growth in cargo movement is the result of a derived demand gaining strength from higher trade intensity. In view of the importance of the sector, the government has initiated the National Maritime Development Programme by identifying specific schemes/projects and other measures to give a concrete shape to the vision and strategy laid down in the Maritime Policy document over a ten-year period. The programme will be implemented through public-private partnership and will involve investment of Rs 60,000 crore in the ports sector and Rs 40,000 crore in the shipping and inland water transport sector.

The aviation sector's performance too remained commendable, and with private participation increasing in the aviation sector, it has replicated the dynamic growth witnessed by the economy at large. The growth in domestic and international passenger traffic during April-June 2005-06 was 17.5 and 14.7 per cent respectively, albeit lower than 27.8 per cent and 24 per cent during the same period in 2004-05. In order to accommodate the increased number of passengers the number of aircraft flown also registered a healthy growth of 6.3 per cent and 19.1 per cent respectively for domestic and international traffic, during the same period.

Increasing competition from new entrants, especially the low cost carriers, has already made an impact on all legacy carriers including market leaders Jet Airways, Indian Airlines and Air Sahara. The Sahara group has come to the conclusion that infusion of additional fund is essential to meet competition. Jet has already raised capital through its successful IPO and is focussing on expansion in the international market. Even the government has finally cleared Indian Airlines' fleet expansion

During April-August 2005, cargo handled at ports grew by 14 per cent

Domestic and international passenger traffic grew by 17.5 and 14.7 per cent respectively during April-June 2005

plan, besides granting the green signal for an IPO.

The intense competition among carriers also points to the need of expanding infrastructure, especially in Mumbai and Delhi, which accommodates 70 per cent of air passengers. However, the present state of dilemma and confusion adds uncertainty in the modernisation process as pre-qualified bidders had to leave the bidding because of stringent norms and delays in the process itself.

Telecommunication is a fast rising sector of the economy and by the turn of fiscal 2005, India had achieved a tele-density of 8.75 per cent. However, low tele-density in rural areas remained a black spot. In order to augment rural tele-density, the government has made a provision of Rs.1,200 crore for 2005-06. It is expected that 1,687 subdivisions will get support under the USO Fund for rural household telephones and 5.20 lakh village public telephones (VPTs) have already been installed so far, with BSNL undertaking to provide VPTs in the next three years to the remaining 66,822 revenue villages.

The important role-played by the power sector in the growth and development of an economy is unequivocal. Of late the situation presents a grim picture with inadequate power supply in several states retarding the process of development and thereby bringing into forefront the question of energy security. The installed power generation capacity, of power stations located in the regions of main land and islands, as on August 2005 was 122274.81 MW. Of this around 10.5 per cent of the installed capacity in the utilities was in the private sector.

In the Tenth Plan up to 2005-06, against the target set, the capacity addition has fallen short by 9379.2 MW. For the period April-August 2005 capacity addition in power generation that includes thermal, hydro, nuclear has fallen short by

628.8 MW. In case of nuclear power, the capacity generation for the same period has been 540 MW. Central schemes have fared comparatively better in achieving targets vis-a-vis state and private schemes. During this period the all-India deficit in availability of power stood at -7.7 per cent. Of the five regions, the western region faced the most deficit, with Maharashtra being the hardest hit with a deficit of 14.9 per cent. The region with the least deficit was the east with a deficit of 3.5 per cent. Of all the states, UP faced the grimmest situation with the deficit reaching 20.7 per cent followed by Meghalaya, Bihar, Maharashtra, and MP among others. At peak demand the supply was shortest in the Western region with Maharashtra and Gujarat facing the greatest paucity of supply.

In this backdrop, a massive programme for rural electrification begins in the FY 2005-06 with the objective of covering 1.25 lakh villages in five years. The focus is on deficient States. The programme envisages creation of a rural electricity distribution backbone, with a 33/11 KV substation in each block and at least one distribution transformer in each village and the government provided Rs 1,100 crore for this programme.

Ports

From the quantum of cargo movement via major ports the buoyancy of economic activities of a nation can be discerned. The increase in cargo traffic has been robust in the current fiscal year. In August 2005, cargo traffic at major ports witnessed an impressive growth of 10.4 per cent to 33.6 million tonnes, albeit lower than an increase of 16.6 per cent to 30.25 million tonnes during the same period in 2004. Traffic at major ports witnessed a growth of 13.6 per cent during April-August 2005, which is significantly higher than 10.3 per cent witnessed dur-

India has achieved a tele-density of 8.75 per cent

During April-August 2005, the western region faced the highest power deficit

ing the same period in 2004 (Fig S.1). The quantum increases in cargo during the same periods respectively being 146.9 million tonnes and 166.9 million tonnes.

The share of cargo traffic handled for April-August 2005 remained highest for Visakhapatnam at 13.5 per cent (Fig S.2), marginally increasing from 13.3 per cent during the last fiscal. On the other hand, during the same period Kolkata port witnessed the highest growth in cargo traffic movement at 21.5 per cent followed by Haldia, Murmugoa, Mumbai and Visakhapatnam. However, Cochin witnessed negative growth at -23.1 per cent. The quantity of cargo handled by Visakhapatnam stood at 22.5 million tonnes leveraged by a growth of 18 per cent. Chennai, Kandla, Haldia and Mumbai followed among others.

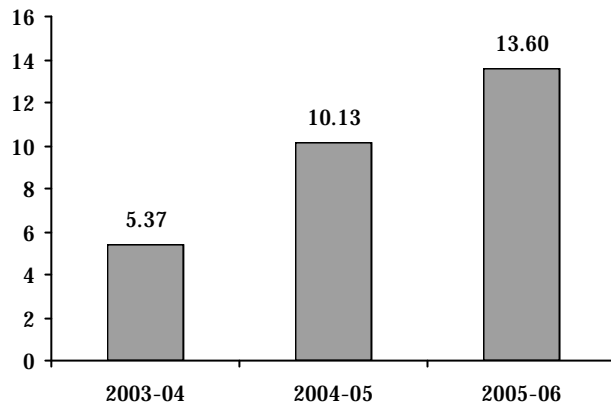
Among 14 major commodities transported through the ports, Of these, POL products, Iron Ore and Coal accounted for around 65 per cent of the total quantity of cargo movement. The relative growth of cargo movement was highest for cement followed by fertiliser, finished iron and steel and edible oil, which grew at 92.9 per cent, 81 per cent, 62.5 percent and 48.8 per cent respectively. Food grain and fertiliser witnessed negative growth rates. For POL and other ores the growth rates were low at 5.5 per cent and 3.2 per cent

As on April 1, 2005 India have of 8.01 million GRT (Gross registered tonnage). Fleet size of India increased from 616 ships in March 31 2003 to 686 ships in April 1 2005. In view of the importance of the sector, a comprehensive policy for the maritime sector has been formulated. The policy seeks to combine vision and strategy for the sector through harmonious and coordinated development of ports, shipping lines, inland water transport systems, ship-building and ship-repair industries.

The Government has taken up

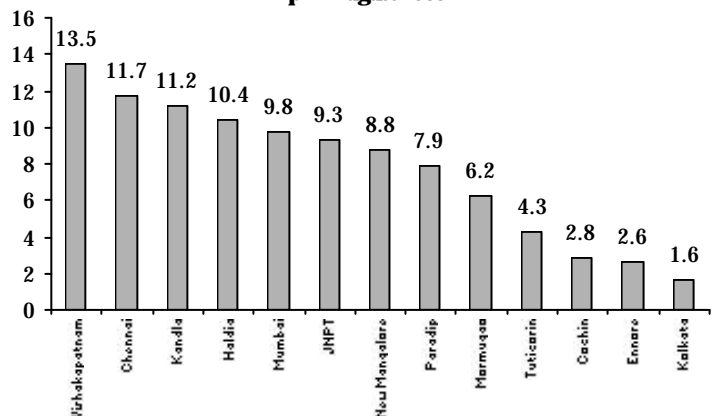
preparation of the National Maritime Development Programme by identifying specific schemes/projects and other measures that are necessary to give a con-

Fig.S.1 Growth (%) of Total Cargo Handled in Indian Ports (April-August)



crete shape to the vision and strategy laid down in the Maritime Policy document over a ten-year period. The programme will be implemented through public-private partnership and will involve investment of Rs 60,000 crore in the ports sector and Rs 40,000 crore in the shipping and Inland Water Transport sector. Public investment will be primarily for common user infrastructure facilities in the ports like deepening and maintenance of port channels, construction of breakwaters, rail and road connectivity from ports to hinterland, etc. Private investment will

Fig.S.2: Share of Traffic in the Major Ports April-August 2005



be in the areas where operations are primarily commercial in nature like construction, management and operation of berths/terminals in the various ports.

Aviation

With private participation increasing in the aviation sector, it has replicated the dynamic growth witnessed by the economy at large. The leverage has been provided by the enabling policies that were unveiled by the policy makers. The impressive growth of the last fiscal was witnessed this year also. The growth in passenger traffic in the domestic and international segment during April-June 2005-06 was 17.5 and 14.7 per cent respectively (Fig S.3), albeit lower than 27.8 per cent and 24 per cent during the same period in 2004-05. In order to accommodate the increased number of passengers and thereby peg the demand supply mismatch, the number of aircraft flown also registered a healthy growth of 6.3 per cent and 19.1 per cent respectively for domestic and international traffic, during the same period. However, the growth witnessed during the same period in 2004-05 was respectively 14.7 per cent and 21.3 per cent. Aircraft movement grew by nine per cent in the first quarter of 2005-06 as against a 16 per cent growth in the corresponding quarter of 2004-05.

The intense price competition that has resulted in discounted fares, promotional offers, bilateral agreements and introduction of flights to new destinations has consequently contributed to the increased passenger traffic.

Connectivity through aviation services was further improved with the launch of Paramount Air in September 2005, which was intended to connect secondary towns and metros. Go Airways and Indus Airways are also expected to start operations soon.

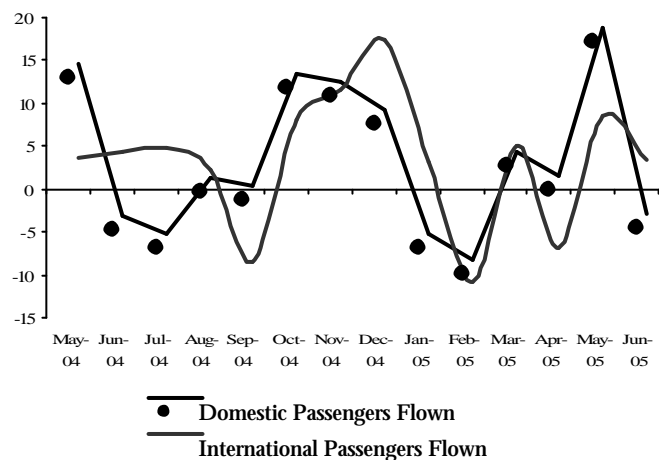
With the new generation carriers like

Air Deccan, Kingfisher and Spicejet expanding their market share to 17 per cent in August this year, the much-awaited consolidation in the Indian aviation market appears to have begun. The pace of consolidation could accelerate with a number of new entrants including Go, Indus, AirOne and IndiGo working out plans to enter the market soon. While the government is planning an IPO for Air India and Indian Airlines, a number of other players like Air Deccan and Spicejet could either tap the market or opt for strategic partnership.

Increasing competition from new entrants, especially the low cost carriers, has already made an impact on all legacy carriers including market leaders Jet Air-

The number of domestic and international aircraft flown grew by 6.3 per cent and 19.1 per cent respectively during April-June 2005

Fig S.3: Growth of Passenger Traffic



ways, Indian Airlines and Air Sahara. The Sahara group has come to the conclusion that infusion of additional funds is essential to meet competition. Jet has already raised capital through its successful IPO and is focussing on expansion in the international market. Even the government has finally cleared fleet expansion plan by Indian Airlines besides granting the green signal for an IPO.

Airport Infrastructure: Bidding and Aftermath

The Airport Authority of India (AAI) manages 124 airports in the country. Among them 11 are international airports, 85 domestic airports and passenger terminals in 28 military airports. The AAI handles an annual traffic of a little under one crore passengers, 70 per cent of this come from Mumbai and Delhi. Most airports in the AAI's network earn low revenues. India had set up a ministerial panel to oversee the privatisation of the two airports to help cope with the surge in air travel. It is in this context, the Government initiated the process of modernisation and privatisation of international airports at Mumbai and Delhi. However, stringent norms and delays due to policy confusion remained dominant in the aviation sector and as a result of these, two successful pre-qualified bidders decided to opt out of the process. The Bharti Group expressed its inability to participate in the bid because of its failure to secure a performance guarantee commitment from its foreign partner Changi Enterprises. The other joint venture of Piramal and L&T, with Hochtief as their foreign partner has also decided to leave the bidding process. Now, of the eight bidders, six have already confirmed participation with the Civil Aviation ministry.

Though initiated a couple of years before, the critical process of evaluation of technical and financial bids has just started. The final transaction document allocates maximum points (62.50 out of 200) to 'management experience and expertise' followed by development experience and expertise (44.60), it is prudent on the part of each consortium to have taken utmost care to choose the right partner: be it the airport or non-airport operator.

The other crucial parameters where the successful bidder has to score points include business plan, HR approach, initial development plan, stakeholder manage-

ment, transition plan and environmental plan. Since the project involves employee-related matters, how aptly a consortium tackles HR issue will be crucial.

The selection of bidders for both airports will be finalised by the turn of the calendar year 2005. The Ministry decided that the AAI would enter into joint ventures with private companies and investors and that it would allow these players to own 74 per cent of the stake in the joint ventures which would reduce the AAI to a minority stakeholder in the new venture. However, bearing in mind the need for a crisis management to deal with the issues that have now become a regular feature of the disinvestment process, the government constituted an Empowered Committee to examine the "overall parameters" of the privatisation and modernisation process of airports in India. The overall process, therefore, beset with examination, re-examination and delay and the spirit of openness in airport infrastructure still remains a diluted one.

Railways

In a rarity of sorts, the Railway Minister, Mr. Lalu Prasad was the recipient of a letter of congratulations from the Prime Minister last month. Reports have it that the PM was pleased with some glowing operational indicators and particularly the upturn in Railway finances in FY 2004-05 (anticipated in our last Review, on the strength of the sharp surge in freight traffic).

Revenue yielding freight topped 600 million tonnes in 2004-05, 20 million tonnes more than budgeted. This finds reflection in the financial results (unaudited) that we first present here. IR follows a financial presentation that is rather unique, so a brief analysis of the numbers is needed to gain qualitative insights.

Total earnings Gross Traffic Receipts have surpassed the budget by a tidy five per

Stringent norms and delays due to policy confusion remained dominant in the aviation sector

Table S.1: Financial Results of Indian Railways for the year 2004-05 (Rs crore)

Particulars	Budget Estimate	Actual	More (+)/ Less (-)
Passenger Earnings	13,940	14,113	(+) 173
Goods Earnings	28,745	30,778	(+) 2,033
Other Earnings	2,217	2,479	(+)262
Gross Traffic Receipts	44,902	47,370	(+) 2,468
Total Ordinary Working Expenses	32,860	33,389	(+) 529
Appropriation to DRF*	2,267	2,700	(+) 433
Appropriation to Pension Fund	6,290	6,670	(+) 380
Total Working Expenses	41,417	42,759	(+) 1,342
Net Traffic Receipts	3,485	4,611	(+) 1,126
Dividend to Central Government	3,605	3,199#	(-) 406
Operating Ratio (per cent)	92.59	90.98	(-) 1.61

* DRF: Depreciation Reserve Fund, to which cost of replacements is charged

Amount shown includes arrears of Rs. 483.3 crore relating to earlier years (Deferred Dividend)

cent, largely on the freight account, and the increase in working expenses (for the extra fuel consumed at higher than budgeted prices) has been contained to less than two per cent. This has helped to increase the outlay on replacements DRF and also pull up some backlog in 'Dividend' payable to the Government for the IR Capital outlay, which is treated as a 'loan in perpetuity'. The Operating Ratio — the key index of financial performance — has improved by 1.6 percentage points. All good cause for satisfaction (Table S.1).

Turnaround? Well, Not Quite

Despite this very good year, IR is still left with virtually zero reserves. There is a carry-forward balance of about Rs 2,600 crore in the Replacement Fund sufficient to meet just about one year's outlay of this type. And to set it off, there are dividend arrears of over Rs 2,000 crore still due to the Central Government. For the year itself, after meeting all the obligatory expenses, the bal-

ance ploughed back into 'reserves' (categorised into different Railway 'Funds' all going towards investments in system expansion and improvements) is Rs 1,412 crore, which is about a tenth of Railway's current average annual plan investments. That should help place the scale of improvement in perspective. In short, there is no cause for euphoria. Also, the Operating Ratio still remains in the danger zone of ninety per cent plus; in IR's halcyon days of the 1960s, this ratio was in the 70-80 per cent range and as late as 1995-96, it stood at a respectable 82.6 per cent.

A slew of new initiatives

The sense of optimism has been fuelled by marketing innovations some of which (on the freight side) we touched upon in our last review. These have been followed by a few initiatives on the passenger side — including a rather symbolic one rupee cut on all Second Class tickets. More material is the move to increase capacity utilisation by

The operating ratio of Indian Railways improved by 1.6 percentage points in 2004-05 compared to the Budget estimate

upgrading passengers booked by Sleeper class (on heavily booked trains) to the AC classes against berths otherwise going vacant. For the long term, the hopeful sign is that IR is gearing up to meet the challenge thrown by the new phenomenon of 'low cost' air services connecting non-metro destinations.

Increasingly, IR will have to contend not only with competitive pressures in the domestic market but also factors affecting external trade. The latter worked in IR's favour in FY 2004-05 which recorded a 19.8 per cent increase (over the budget) in the profitable 'export iron ore' movement. These trends have continued into the first Quarter of FY 2005-06, which has seen a 7.8 per cent rise in freight kilometres. On the other hand, there are also reports of huge stockpiles of iron ore in Chinese ports (the main destination of IR loadings of this commodity) and the possibility of cut back in movements later in the year. Sound long term policies and quick responses to market developments are the indicated recipe for IR to follow.

Control over staff expenses is the key

In terms of long term policy, the results of the last year highlight the rather overlooked but crucial factor of control over staff costs. Here, a quiet policy turnaround (not much publicised because of perceived low political returns) effected in 2001 is now yielding results. Over the last four years, IR has been strictly limiting new staff intake to just one per cent of cadre strength of operational categories and half of one per cent for non-operational categories. With attrition through retirements averaging 40 to 50 thousands per annum, this policy has brought down IR's bloated staff strength by eight per cent over the last four years. The Table S.2 reveals the impact of the policy. Against a net reduction of just 10,000 over 1996-2000, the new policy has brought down

Fig S.4: Railways Staff Wages and Goods Revenue as a Percentage of Gross Traffic Receipts and Operating Ratio

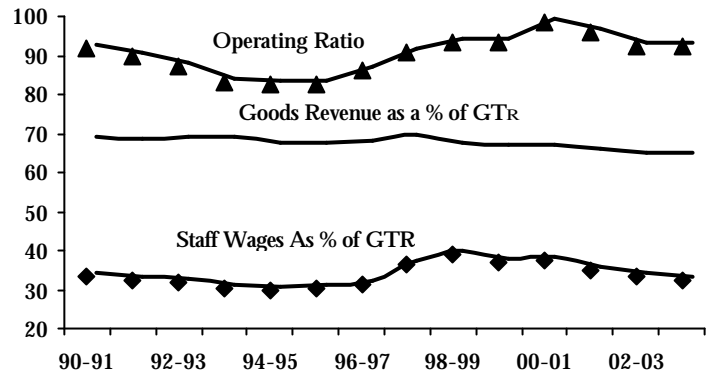
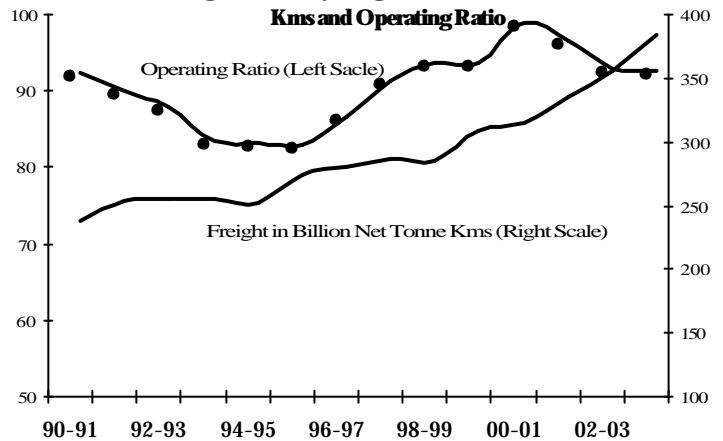


Fig S.5: Railway Freight in Billion Net tonne Kms and Operating Ratio



the numbers by 127,000 in the next four years. A target to bring down the payroll strength by a further 200,000 (to 1.18 mil-

Table S.2: Staff strength of Indian Railways

As of March 31	Total Staff Strength	Reduction (per cent)
1994	1,554,986	-1.23
1995	1,532,623	-1.44
1996	1,517,633	-0.98
1997	1,514,675	-0.19
1998	1,509,326	-0.35
1999	1,509,176	-0.01
2000	1,507,268	-0.13
2001	1,476,991	-2.01
2002	1,445,038	-2.16
2003	1,409,323	-2.47
2004	1,380,287	-2.06

lion) by 2010 has been set and is achievable if the present trend is sustained.

Most important, this discipline has not impaired IR's operating performance. This is not surprising because IR's own internal assessment done ten years ago showed overstaffing of the order of 20 to 25 per cent. The problem lay in the reluctance to address it systematically.

Significantly, our own analysis presented in the Fig S.4, shows a close fit between staff costs and the Operating Ratio over the long term. Note that the rise and fall of the performance indicator is much more in line with the trends in staff costs as compared to another key contributing factor of ratio of goods revenue to the Gross Traffic Receipts.

This is not to underplay the crucial role of freight in IR's financial well being. Given in Fig S.5 is a graphic presentation

of the pace of increase in IR freight since 1990-91. There has been markedly higher freight growth in the last four years. But for the tight control on the staff side, this would not have translated fully into corresponding improvement in the Operating Ratio.

There are several other overdue measures that await attention. Chief among them is internal restructuring by lines of business (as against functional departments at present). Transparency and rationality also needs to be brought into the tariff setting process, by taking this task out of IR management's domain. Will IR summon up the resilience to address such issues in the current and immediate following years? It is over to Mr. Lalu Prasad and his (Railway) lieutenants.

Special Section:

What ails Delhi Power Reforms?

Reforms in electricity distribution in Delhi hit extreme turbulence in July/ August. Protests — more symbolic than of the 'street' variety — against a ten per cent tariff hike for domestic consumers (sanctified by the Regulator, not the Government) snowballed into a challenge to the State political leadership itself. One odd feature was that the protests were started and sustained not by the opposition parties but by well-heeled gentry — some identified with the 'intelligentsia' — and by 'Resident Welfare Associations'. The challenge to the leadership too came from within the ruling establishment, leading to the surmise that intra-party 'factionalism' was taking advantage of a passing episode.

These features (as also issues like defective meters that allegedly overcharge the consumer) are really extraneous to a diagnosis of the problem with the Delhi power distribution reforms. For there is a serious problem with it, which has been obvious to careful observers of the Capital's power sector. The problem is rooted in the reform model itself and not in its tardy implementation by the private agencies that took over the management and 51 per cent ownership of the three distribution companies.

In the event, the turbulence has been weathered by neutralising the 10 per cent tariff increase through a shared subsidy mechanism. But the basic problem that we shall now detail remains; it holds within it the potential to derail the unfinished Delhi exercise itself and a broader lesson in designing viable reform models in the sector.

Shared ownership, (un) shared obligations

The ownership pattern that we just referred to makes for a classic case of Public: Private Partnership. It also mandates a symmetrical sharing of the obligations for completing the several reform tasks. The model put in place is hugely asymmetrical and to compound this, tardiness on the part of one of the private agencies has been more than matched by sloth on government's part in the support measures that were incumbent on it to provide.

At the time the private agencies were inducted, the public sector entity they replaced — the DVB — was an unrivalled mess. The distribution network was a shambles, physical records of much of its assets were incomplete or non-existent (a factor to which one private Discom attributed its own delay in pumping in investment) the accounts had not been closed for several years and corruption was rampant. Law and order problems associated with power breakdowns in summer were the routine. One area where the fog had been cleared up was in determining the actual level of 'distribution loss'; at 50 per cent plus, this was "unmatched in any other part of the country or even the world", as claimed in the Government's own strategy paper on reforms. This in brief was the legacy entrusted to the private Discoms to salvage. A composite 'Aggregate Transmission & Commercial' (AT&C) loss reduction target, to be met over five years, was set for each Discom. They were also to bring in investments to upgrade the distribution system to the required technical standards.

On its part, Government undertook just two obligations in the 'Transfer Scheme' proper. These were: (a) to facilitate the needed bulk power supply for five years through its fully owned Transco and

(b) to subsidise this agency to the extent of Rs. 3,450 crore through four pre-set yearly instalments (heavily front-loaded). The subsidy was towards meeting the gap between the bulk and retail prices, till the loss situation was brought under control.

Missing Elements

While the Government could claim that these obligations have been met, it was facile to assume that the Discoms would be able to meet their obligations without considerable added support. The crux of the issue related to loss, largely theft — not only by jhuggi-jhopri dwellers but also by factory owners and residents of posh localities. There are reports of whole factory establishments drawing unmetered power directly by cable connected to underground mains. Accounts have appeared in the press of farm houses with a half-dozen or more air conditioners ostensibly connected to a shared self-generating plant but actually drawing power by hooking on to DVB's overhead lines.

All this was in the realm of public knowledge. It was also known that such practices could not continue without official patronage. The figure given above depicts graphically, how the gap between energy put into the system in the capital and that billed widened from the critical year 1993-94.

We denote 1993-94 as 'critical' because Mr. Jagdish Sagar, the former Managing Director of Transco and one closely associated with the reform is quoted with the frank observation that "the rot started in 1993-94, the year Delhi first got an elected assembly" (EPW - February 12, 2005: 665).

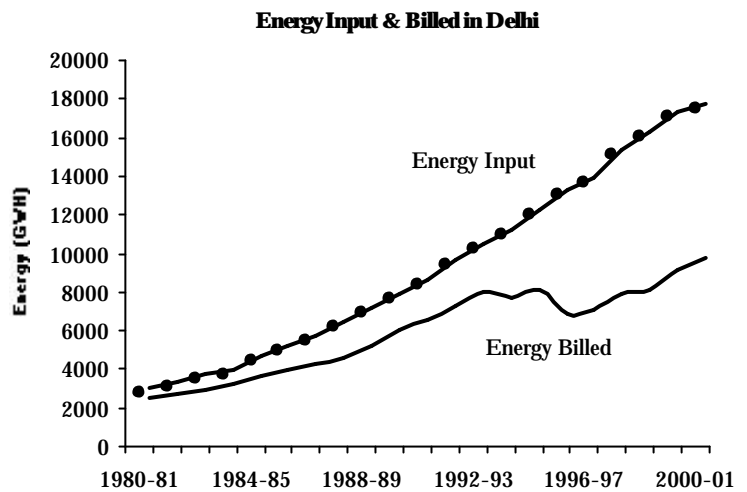
In a system of shared obligations, a problem like this becomes a joint concern of the public and private partners. Area-wise surveys will be planned, opportunity given for voluntary disclosures, special courts will be set up, and exemplary punishment will be meted out and publicised. None of these figured in the 'Transfer Scheme' or the 'Policy Directions' issued by Government. Instead, the entire responsibility was shoved on to the Discoms under the composite "AT&C loss" reduction targets. Eventually, the Central Electricity Act (enacted one full year after the Delhi reforms) provided a framework for the special courts. But the State Government dragged its feet in actually setting these up till a higher Court intervened through a PIL. It is alleged even now that the number of special courts set up is inadequate and cases are piling up.

Deficient Subsidy Mechanism

There are two other serious drawbacks. Firstly, the targets of loss reduction set for the Discoms are too modest. The loss level to be 'achieved' by the end of the five year period is a high 31.1 per cent in the case of two Discoms and as much as 39.95 per cent in the case of the third. In other words, losses in Delhi five years into privatisation will equal the current national average level, which was 32.53 per cent in 2003-04!

One excuse advanced is that there was inadequate competition for the distribution licenses. This should have alerted the Government to inherent flaws in the design and the lessons ought to have been learnt on correcting these. The opportunity was lost and a gamble was taken in the apparent expectation that things would somehow work out.

The second flaw explains why things have not worked out. It transpires that the subsidies committed by the Government through the 'Transfer Scheme' would be inadequate to meet the gap



between the bulk and retail prices unless the loss reduction targets are substantially improved upon by the Discoms. To quote from the Regulator's own Third Tariff Order (June 2004):

"The Commission further opines that for the success of reform and restructuring and to achieve

Area-wise Targets of 'AT&C Loss' Reduction (per cent)

Details	North-North West	South West	Central East
Opening loss level	48.1	48.1	57.2
Target Set *	19.25	19.25	20.75
Target Quoted *	17.00	17.00	17.25
Loss at end of 5 yrs	31.1	31.1	39.95

* The Discoms bidding for the license quoted lower loss reduction targets than the 'minimum' set in the bid document. These lower bids were accepted.

the viability of the Sector by FY 2006-07, it is essential to exceed the AT&C loss reduction targets as compared to minimum AT&C loss reduction targets stipulated in the Policy Directions".

It is this mismatch that the previous regulator tried to cover through the innovation of a notional 'Regulatory Asset', the cost of financing which will be reimbursed to the Discoms. Apparently even this turned out to be inadequate and the current regulators stepped in with a ten per cent tariff hike, which turned out to be ten per cent too much for the honest tariff-paying consumer. The solution of shared subsidies (shared half and half by Government and the Discoms) leaves room for further disputes in future.

The crisis seems to have spurred Government into a more active mode in tackling power theft. If these are not pursued relentlessly, we can rest assured that the problem will reappear in magnified form when the next tariff revision falls due in mid-2006.

As long as the DVB was running up losses, the bill was picked up by Government and indirectly the taxpayer. In the new arrangement, revenue gaps unmet through Government subsidy are to be made good by the bill-paying consumer - in effect a direct 'cross-subsidy' from the honest to the dishonest. Thanks to the increased transparency brought about by reforms, this will not wash henceforth. This is the message of the recent episode and also the explanation for the unusual character of the protests.