GOVERNMENT OF INDIA
POWER
LOK SABHA

UNSTARRED QUESTION NO:3389
ANSWERED ON:05.02.2004
FINANCIAL HEALTH OF SEBs
KAMAL NATH;NARESH KUMAR PUGLIA;SHYAMA SINGH

Will the Minister of POWER be pleased to state:

(a) whether the Government is aware of the poor financial health of State Electricity Boards in the country;

(b) if so, the details thereof;

(c) whether due to poor financial health of SEBs, the private sector is not showing any interest to invest in power sector;

(d) if so, the details thereof; and

(e) the steps taken by the Government to improve the financial health of SEBs and also to encourage private sector participation in the power sector?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF POWER (SHRIMATI JAYAWANTI MEHTA)

(a) to (e) : As per the last Annual Report of the Planning Commission on the working of the State Electricity Boards, the commercial losses (without subsidy) of the SEBs increased from Rs.4,560 crore in 1992-93 to Rs.25,259 crore in 2000-01.

The Government of India has initiated various steps to revive the poor financial health of SEBs/Power Utilities. The Ministry of Power has signed Memorandum of Understanding (MoU)/Memorandum of Agreement (MoA) with States on power sector reform envisaging support of Central Government subject to States progressing satisfactorily on agreed reform agenda. The Union Government, in order to help the State Electricity Boards/Utilities is providing funds to States under Accelerated Power Development & Reform Programme (APDRP) for investment in identified distribution areas for, inter alia, reducing technical losses and improving the quality of supply and also incentivizing, through grants, reduction of cash losses. Past debts of SEBs due to Central Public Sector Undertakings have been securitized and current payments streamlined under tripartite agreements. These steps have started showing definite signs of improvement in the functioning of the State Electricity Boards/power utilities. In the year 2001-2002 four states namely Maharashtra, Gujarat, Haryana, and Rajasthan have reported aggregate cash loss reduction of Rs.2138.44 Crores for the year 2000-2001. In addition 11 states namely Andhra Pradesh, Assam, Gujarat, Madhya Pradesh, Maharashtra, Tamil Nadu, Uttar Pradesh , Himachal Pradesh, Kerala and West Bengal have reported deduction in over all losses during the year 2002-2003.

The Electricity Act, 2003 enacted recently is a progressive legislation that provides for measures conducive to development of electricity industry, promoting competition therein, protecting interests of consumers and supply of electricity to all areas, rationalization of electricity tariff, ensuring transparent policies regarding subsidies, promotion of efficient and environmentally benign policies etc. Funding of power projects based on the above factors is expected to give a boost to private sector investments.

Private sector companies have shown limited interest in power projects for a variety of reasons. One of the main reasons has been the delays in achieving financial closure due to the poor finances of the State Electricity Boards (SEB) who were the sole customers of the power produced by the Independent Power Producers (IPPs), the SEBs were thus unable to provide bank able payment security mechanism in the form of Escrow, Letter of Credit and Guarantees.

The Electricity Act, 2003 provides for a `multiple buyer model` under which generating companies can sell to third parties (i.e. other than the State Utilities) utilizing the provisions of `open access` to transmission. Encouraged by the said Act and the reforms it has brought in, the Indian Financial Institutions have also shown willingness to consider funding the power projects on the basis of the credibility of the promoters, viability of tariff and a proper distribution mechanism.