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Electric shock

By ADITI ROY GHATAK

CYNICS have described the redoubtable RP Goenka as Member of Parliament, representing the CESC constituency of Kolkata. This time round, Mr Goenka is not representing his constituency's interest in Parliament but before the State Electricity Regulatory Commission and from all accounts – leakages from informed sources at Victoria House and Writers' Buildings, among others – he has done a pretty effective job.

For, on the cards is a 20 per cent hike in the electricity tariff "plus" a 42 per cent increase in fuel surcharge for the city that seems to be in the power monopoly's clutches.

There have been protests, of course, from some business chambers – the Bharat Chamber of Commerce and the West Bengal unit of All India Manufacturers' Organisation – who believe that industry cannot bear the burden of another price hike.

However, non-industrial consumers seem to be getting ready for meek acquiescence, unless the State Electricity Regulatory Commission is convinced that the 1,000 pages of information and calculations provided by CESC have concealed inefficiencies and mismanagement that a full battery of accountants would have to work on to be able to read between the lines.

From the layman's perspective, though, there are some glaring areas that the regulatory commission would do well to go into, to spare the ordinary Kolkatan the impending electric shock. A rational tariff rate and fuel charge should be dictated by costs and performance norms of industry and not by the aberrations and deviations that power utilities may incur.

CESC's ability to get away with unprecedented price hikes has been powered by its successful juggling of numbers around fuel costs and transmission and distribution losses. The two simplest questions emerging, even without going into the minute numbers are: (a) why does the company constantly show massive investments in improving transmission and distribution and yet report ever-increasing T&D losses that are quite out of sync with other efficient utilities and (b) how is it that the calorific value of coal consumed by CESC, which supposedly gets the best coal grades and for which it is paying a higher and higher price, constantly falling?

The third question that will strike the layman is this curious concept of "commercial loss of distribution", which seems to bear the imprimatur of the Goenka ingeniousness. A transmission and distribution loss of 14 per cent has been accepted by the D K Bose Committee that went into power pricing in West Bengal.

Even if one accepts the number – despite good reasons to question it – one is struck by the blatant manner in which CESC has compartmentalised its so-called T&D losses by adding a new segment called "commercial loss

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of distribution", which broadly includes loss because of power theft, failure to read meters and other avoidable losses, to claim protection from the T&D cut-off line of 14 per cent.

This line CESC surpassed by far with a 23 per cent T&D loss. To use the specious logic of wanting to be exempted from losses caused by unverifiable thefts and its own admitted failure to read meters just by the simple legerdemain of placing them under a new category bears evidence to the fact that the CESC really believes that it can fool all the people for all times.

An analysis of CESC's T&D loss over the past decade shows that prior to the Goenka takeover in 1991 such loss was consistently within the 15 per cent limit. The RPG connection meant that the loss, at 14.64 per cent in 1991, moved up to 17.15 per cent in 1992 and to 23.11 per cent in 2000. What possible reasons could the thieves have to celebrate the advent of Mr Goenka? As the Bharat Chamber has taken pains to submit before the commission, the CESC's area of operation, a compact one and, therefore, easily governable to begin with, has mostly underground cable network to boot that makes power theft far more difficult.

Compare it with the West Bengal State Electricity Board's far more widespread area of operation, involving overhead cables, but which does not suffer from the intensity of the malady as CESC does on the one hand. On the other, compare it with Maharashtra's BSE that is reducing T&D losses every year – from 14.95 per cent in 1993-94 to 11.53 per cent in 1998-99.

Should the Kolkata consumer bear the burden of CESC's creative "commercial loss" is a moot question that the commission has to examine and possibly chuck into the trash can. The fourth question exercising the layman should be around the heat rate of power plants (heat in kcal required to generate 1 kwh power). Even a fundamental understanding of "creative accounting", would prompt one to question the quality of transparency around the heat rate figures provided by CESC. For starters, the figures of its older plants at Cossipore and Mulajore are not even provided. This opens the utility to the suspicion of building in very high heat rates of these plants into the fuel cost and, therefore, abnormal fuel requirements at an abnormal cost. The issue before the commission is whether the failure of CESC to upgrade its obsolete plants is to be borne by consumers?

Should the commission wish to pursue this very fascinating point further, it should do a comparative check of the heat rates of the Southern and Titagarh generating stations – at 2,800 kcal/kwh – with the figures from similar plants in Andhra Pradesh. It may expect to find the number at around 2,491 kcal/kwh!. What the inflationary impact of this difference is, on overall costs, one is sure the commission's accountants will figure out. Having understood these basic questions, the ordinary power consumer in Kolkata could ask the commission a few questions and make a few recommendations.

Perhaps, the commission could be asked to spend time on the October 1997 S R Batliboi & Co Report. The consultant had been appointed by the power department of the state government for a special audit of the CESC accounts when Kolkata was still reeling under the threat of the first major price hike on account of fuel surcharge. While S R Batliboi did clear the figures on the basis of which CESC finally secured its price hike, some extremely damaging conclusions of the consultants would be useful to peruse again. Among others, the report found the fuel cost component of CESC to be much higher than that of WBSEB and the Damodar Valley Corporation.

CESC received, on the basis of this report, an award of 13.08 paisa per unit fuel surcharge arrears for 1995-96 (amounting to Rs 61 crore). Because the total fuel cost, 86 paise per unit, had been merged with the basic tariff up to 1991.

The objective of fuel surcharge is to allow the electricity company to recover from the consumer any increase in actual fuel cost because of fuel price increase and other factors. Yet in a travesty of logic, throughout the period, the fuel cost component of CESC remained higher than the net fuel cost component, after combining those of purchased power from sources such as the WBSEB and the DVC.

The commission may then move on to the curious case of CESC's increasing coal bill for higher grade supplies and lower calorific value. In I995-96, the commission would do well to note, the calorific value of coal for the Southern Generation Station was 5,294 that had gone down to 4,776 in 2000-01.

Alongside, there was a fall in the calorific value from 5,333 to 4,776 for the Titagarh power station, from 6,066 to 5,383 for New Cossipore and from 6,066 to 5,812 in Mulajore.

The bottomline, it would be clear to the meanest intelligence, is that fuel costs shoot through the roof. The Statesman analysis in a series, "Area of Darkness" (June 1998) had turned the spotlight on one of the factors for this high fuel cost – high grade coal meant for power plants was being freely traded (or substituted by inferior coal) before reaching the actual power generation process.

The commission's accountants would also be well advised to check the coal and fuel handling losses. This is another brilliant source of prospective revenue for CESC – among the reasons prompting it to believe that it is entitled to yet another hike of the fuel cost via higher fuel surcharge.

The handling loss is pegged at four per cent although the actual losses (Batliboi Report (p-11) were 3.11 per cent in 1993-94, 1.37 per cent in 1994-95, 0.75 per cent in 1995-96. More interesting is the finding of S R Batliboi that in some cases as in Mulajore, "the net (coal) purchase figure is recorded on the basis of eye estimation and hence, to the extent of probability of error in eye estimation the coal consumption figures as recorded might be erroneous".

One is not suggesting that men in charge of CESC get themselves new spectacles but by what process of reasoning can the company subject the millions who make up Mr Goenka's CESC constituency to the chances of such "eye estimation error", which may run into crores of rupees?

If eye estimation is what one relies on in some cases with the CESC plants, it would be far wiser to take the fuel cost of, say, WBSEB, as the standard for all such estimations. If CESC's fuel cost of 90.64 paise per unit in 1995-96 is substituted by the WBSEB's 79.79 paise per unit, the scenario changes altogether.

Indeed, the net fuel cost comes down to 91.73 paise per unit from 99.30 – a difference of 7.57 paise (amounting to more than Rs 34 crore that was over-recovered by CESC by this calculation).. The Batliboi Report had said that there could be a fuel cost increase of four paise per unit every year, which means the total fuel cost per unit in 2000-01 should not exceed 106.73 paise per unit in 1999-2000 and 111.73 paise per unit in 2000-01. Deducting fuel cost of 86 paise per unit already included in the tariff, current fuel surcharge should not exceed 20.73 paise instead of 60 paise (more than 39 paise currently overcharged) and fuel surcharge in 2000-01 should not be more than 25.73 paise, instead of the proposed 85.15 paise.

Where, then – the Kolkatan submits to the State Electricity Regulatory Commission – is the case for increasing the fuel surcharge? Is there not a better case for demanding a return on account of the excess fuel surcharge that CESC recovered in the months gone by?

(The author is a freelance writer.)