Poor Policy Formulations

By S L Rao

Central service officers are expected to offer their political masters options in formulating and implementing policies. For example, with the desire to keep electricity prices as low as possible, the policy of tariff based competitive bidding for new power projects was introduced. To keep costs down some bidders looked for equipment that would extract more energy out of the same coal, low cost equipment, good payment terms, and timely deliveries. Indian power equipment was a BHEL monopoly, not up to date in technology, unreliable on delivery, and costly. China had installed many such super thermal and ultra super thermal plants in China which were working well. Their prices were also lower than for similar equipment from Europe. As private power producers began placing orders on china, BHEL began making such equipment, and L & T and Bharat Forge also entered the business. Their capacities were small and their equipment untested. Their prices were also higher than in China. They used their Indianness to push government to impose a 14% tariff on Chinese equipment, thereby making the end power tariffs higher. This is an example of policy confusion in government-we want cheap power quickly but want also to raise the price of equipment. If Indian equipment has to be supported it should not be at the cost of the power producer but from the government budget.

Ultra mega power projects are predicated on government allocating coal mines to the power producer to keep power costs low. Since these mines have yet to be developed, no one can predict how much coal might be available over the 25-30 year bid life of the UMPP> Modern technologies could enables more coal to be mined than earlier anticipated. This extra coal can be left in the ground unused, or traded or allowed to be burnt for more power. In a power hungry nation the last must be the preferred option and must be by the winning bidder. CAG has a report on this but it is unclear what CAG would do with the surplus coal.

Though transmission was opened to private investment by an amendment to the Act in 1998, it took many years before private bids were invited and allocated, because of opposition from Power Grid the central government interstate transmission monopoly till then. Thus was legislative intent superseded by one state owned company, with no penalty for the delay which cost the country delayed new transmission lines.

In the quest to find resources for infrastructure investment and limit the call on government, the Planning Commission developed the idea of public private partnerships, with competitive bids for the amount of financial support needed from government, called "viability gap funding". Bombay had a sea link bridge between Worli and Bandra. It tendered for and allocated extension from Worli to Haji Ali to a private party. Meanwhile the new Maharashtra Chief Minister apparently for political reasons decided that he preferred a coastal road to a sea link and refused to part with the agreed viability funding. The bridge is stuck; so is the coastal road. Dithering by the state government on an earlier decision has now led to delay in deciding what facility to give citizens, and the delay will add to the costs. .

Indian policy makers rarely take account of speculative project developers. Maytas, the Satyam promoted company, quoted for and won a contract to build a metro for Hyderabad. Instead of asking for viability funding Maytas made down cash payment on money they would pay if awarded the project to pay the government instead. Maytas was speculating on land development and that the land given with the project would rise in value. In the event. Maytas had to give up, the project was retendered, went to L & T, who apparently are expecting to lose money on it, especially after the Telengana agitation. The original Maytas offer should never have been accepted.

There are similar policy issues that regulators must address in telecom and air fares. Because of virulent competition, and particularly in airlines, the un-businesslike attitude of some operators, rates were cut below cost in airlines and too low to give decent margins in telecom. This is on the same lines as telecom rates and airline fares that went so low that no company was able to make money. The regulatory authorities must keep close watch on tariffs, not only when they exploit the consumer but also when they are likely to damage the viability of the industry.

Private developers in Delhi and Mumbai airports have exceeded quoted costs and want to be reimbursed by charging passenger's user development charges to make up their loss. The Regulator has allowed it. This seems exploitative since the extra costs were not approved earlier. In addition, Delhi the developer has managed to appropriate much of the surplus from property development without sharing it with government.

As spending on infrastructure rises, there will be many ways in which contracts are drafted, specifications written and procedures laid down, that favor one or other party, and exploit the consumer. It is essential that these possibilities are thought through in advance, scrutinized, and illegal profits taken back by government. (873)