

# For the middle class only

Like the free water quota, AAP's power tariff cut will benefit those who do not need it

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THE AAP government has been quick, perhaps too quick, to announce a 50 per cent reduction in power tariffs for those who consume less than 400 kWh per month of electricity. This is very generous, and it is expected that 2.8 million consumers out of Delhi's 3.4 million will benefit. What kind of consumption can 400 kWh/month support? Electricity consumption varies from summer to winter. The table shows that a consumer with four light points, two ceiling fans, a refrigerator, a colour TV, a room heater, a cooler and electric geyser will need around 210 kWh in a winter month, and 180 kWh in a summer month. Only when a household owns an air conditioner will it use 400 kWh/month in the summer. A household with these appliances is not likely to be poor.

Among the poorest 10 per cent urban consumers in Delhi, 76 per cent had a TV, 93 per cent an electric fan, 25 per cent a refrigerator and 26 per cent a cooler. Among the bottom 30 per cent of the consumers, 83 per cent had a TV, 95 per cent had a fan, 45 per cent a refrigerator and 40 per cent had a cooler. Thus, 200 units per month are adequate for the bottom 30 per cent of the consumers.

Among the bottom 30 per cent of the households, AC owners are exceptional. Thus the power subsidy is targeted at not just the poor but also the aspirational middle class. Many do not require the subsidy. Such a generous limit means there will be little incentive for the middle class to use electricity frugally. Subsidies can be justified for merit goods that the society wants everyone to consume. In India, the policy announced by the ministry of power in 2006 considers 30 kWh per household per month as merit consumption. This is the bare minimum standard of living improves as a society becomes richer. Since Delhi is a comparatively rich state and has a comparatively severe winter, 200 kWh may be justified. But subsidy for 400 kWh is difficult to defend.

## HOUSEHOLD ELECTRICITY CONSUMPTION KWH PER MONTH

APPLIANCE	WINTER	SUMMER
4 CFL light points operating 6 hours a day	10	10
2 ceiling fans of 65 Watt each operating 12 hours	0	50
Colour TV	10	10
25 litre geyser bucket bath	45	0
Refrigerator	45	60
400 watt Room heater- 8 hours/day	96	0
Cooler	0	50
Monthly consumption	206	180
1.5 Tonne AC 10 hours a day	-	220
Monthly consumption with AC instead of cooler	-	400

Does the lower price imply a subsidy? One can argue that reduction in price does not constitute a subsidy; it merely takes away undue profits from the distribution companies who are overcharging consumers. The proposed audit of power distribution companies (discoms) by the CAG should show if this is so. The Delhi Electricity Regulatory Commission (DERC), if it had done its job well, should have looked into the costs of supply, which

would mean the CAG audit is unlikely to reveal substantial deviations. In any case, it would have been prudent to wait until the audit is done. Yet one can be reasonably certain that the new tariff rate of Rs 1.95 for up to 200 units, or even Rs 2.90 for up to 400 units, cannot cover the cost of supplying power and will involve some subsidy. In short, the benefits are for the "haves" and not "have-nots". Surplus funds or even subsidies, if any,

should be mandated to be used to give electricity connections to have-nots. What is worse is that the other states have started to make similar promises, though they are not largely urban states. In Delhi, technical transmission and distribution (T&D) losses should be much less due to its compact geography and high density. If other state governments follow the AAP, it could jeopardise the power sector for years.

The AAP government says that this is a temporary measure for three months and would be revised once the audit is done. However, our experience is that a subsidy once given is difficult to withdraw. Even when the government compensates firms for subsidies, such compensation is often delayed and the quantum is disputed. This raises uncertainty and risk for distribution companies. They have less incentive to supply power to poorer consumers. Thus, the areas where relatively poorer people live may face more power cuts and interruptions.

Delhi cannot print money for deficit financing (which the Centre can). Delhi has a surplus budget, thanks to substantial support from the Centre. However, whatever is spent on power and water subsidies

is not available to meet expenditures to fulfil the 18 critical promises that the AAP has made. For example, providing a water connection to those who do not have it, building schools, having more teachers, increasing public hospitals, shelters for the homeless — all this also needs resources. Prioritising among various expenditures is unavoidable.

To some extent, the AAP government can cut down expenditure through cutting graft and improving efficiency. It is doubtful this will be

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adequate to fund its priority programmes. In any case, the subsidy on electricity is too generous, and quite a bit of it will accrue to those who do not need it. A more targeted approach would have served AAP's objectives better.

The same is the story for the water quota of 700 litres, which is free. The beneficiaries are those who already have metered supply. But the bulk of those who suffer for

want of water are those without piped supply. The amount being spent on subsidy for free water should be spent on reaching water to them. Having spent a large part of our lives working on energy, natural resources and climate change, we are deeply concerned that this largesse to the middle class — no different from what other parties offer to the poor — stalls the drive for energy and water conservation, energy efficiency and renewable energy. Mistargeted subsidies that do not promote wise choices in technology are not what we expect.

Many have voted for the AAP to provide corruption-free government, and not necessarily for cheap electricity and free water. Now the AAP has to serve even those who did not vote this time, but may vote for them in future. They may wish for corruption-free government but not free and cheap goodies that would lead to scarcity, disruption and lower reach to the poor in future. That should not be the AAP's platform.

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