

## Lessons from Enron

By Amulya Reddy

VIRTUALLY ALL recent developments arising from the Enron Dabhol power project were foretold by its critics. Though little new or unexpected has emerged, the outcome has turned out to be far worse than what even its bitterest opponents imagined. There may be temporary "silver linings". For example, the price of Dabhol power now may not be as scandalously high as when the international oil price was about \$30 a barrel. The Centre may come to the rescue of Maharashtra (and Dabhol!) through favourable tax policies and dilution of the damage by absorbing Dabhol power in the national grid. Nevertheless, compared to other sources, the cost of Dabhol power will remain a quantum leap high and will also be volatile and subject to international fluctuations. Hence, it is important to draw the crucial lessons regarding the process followed for the project selection and the paradigm guiding this process.

In its post-1990 liberalisation effort, the Indian power sector did not opt for a full-fledged market approach based on competitive bidding for supply projects. In a perpetuation of old command-and-control habits, it pursued memoranda of understanding, counter-guarantees and power purchase agreements. All these mechanisms increase the opportunity for wheeling and dealing and illicit transactions ending in foreign investors being accorded favourable terms that they would never dream of obtaining in their countries. The Enron Dabhol project was the most glaring example of this pseudo-liberalisation.

The advice in favour of the project was given by experts/committees/consultants but they proved unreliable. For instance, the experts did not even predict that the (Rs/\$) exchange rate and the (\$/barrel) oil price would rise. They did not carry out a rigorous risk analysis. Neither did they campaign for public participation, which is invariably a good safeguard against weaknesses of analysis. Thus, there was no involvement of civil society in decision-making and there was no public participation in the selection of the Dabhol project.

Public participation, however, requires widely available, easily accessible and reliable information. Unfortunately, information about projects is (or is deliberately made) a rare commodity. After all, secrecy is a powerful weapon of the incompetent and the dishonest. No wonder, the Dabhol Power Purchase Agreement was opaque and unavailable for public scrutiny. There was no transparency whatsoever. It has been asserted that the project would never have gone through had there been a right-to-information law.

Energy analysts, preoccupied with being in the corridors of power, are more concerned about being acceptable to, and in the good books of, the establishment than with independence and truth. Civil servants appear to function on the assumption that they will not hold the same position when the day of reckoning comes. Political decision-makers

seem to be certain that they will not hold the same office when the consequences of their decisions turn up. This situation was aggravated by the fact that there was no accountability. To this day, there is no complete listing of those who conducted the Enron-Dabhol negotiations and took the decisions.

The Enron Dabhol project also reveals a number of shibboleths - old-fashioned and generally abandoned doctrines - regarding the power sector. One is that demand-side management (and energy conservation) can be ignored in developing countries because it is appropriate only for industrialised countries. The thrust must solely be on supply expansion. Broader development objectives (health, education, etc.) can be sacrificed in the interests of power sector expansion. In fact, the planning target should be surplus power. Further, it is often (pompously!) asserted, particularly by proponents of exorbitantly expensive power, that any power, however costly, is cheaper than no power. It is also believed that the tariff implications of the supply-demand matching exercise can invariably be ignored. And that the interests of the unconnected and poor consumers can be forgotten.

Of greater worry is the view that globalisation (regarding power project equipment and sources of fuels) should be pursued even if it results in external forces taking over control of the sector. Foreign investment should be attracted even if it requires dollar indexing of power plant investments and imported fuels. No importance is accorded to the fact that, unlike most other developing countries, India is unique in that it has built up a strong and competent indigenous power supply equipment producer (BHEL) and that it is not in the country's interests to undermine and dismantle the BHEL.

The Enron Dabhol project has many lessons to offer. A surplus of power is as harmful as a shortage of power. Excess power (with a take or pay PPA) means that cheap power may have to be rejected. In fact, under certain circumstances, it may be cheaper to have no power than buy exorbitant unaffordable power. It is imperative to examine the tariff implications of any supply-demand matching exercise. Also, DSM must be included as an option with Integrated Resource Planning (Least Cost Planning) to arrive at the cheapest mix of supply and saving options. Competitive bidding procedures rather than MoUs and counter-guarantees are the most effective method of getting the best terms from investors. The PPAs come in the way of merit order dispatch, which is the most cost-effective way of supplying electricity to meet demand. The broader developmental implications of power sector expansion must be kept in mind. The sector must pursue the goal of universal access to affordable electricity. There must be a stress on self-reliance as a central developmental objective to avoid control being taken over by foreign forces. To protect against exchange rate volatility, the dollar indexation of power project costs must be avoided as far as possible. In this context, the strengthening of the BHEL must be ensured. To protect against the impacts of international oil price rises, fuel policy must be based, other things being "equal", on indigenous resources. Above all, as far as the process is concerned, there must be not only competitive bidding but transparency, accountability and participation. The right to information is the talisman or charm capable of working wonders. Since it is the people who suffer the impacts over the long-

term, they must wrest watchdog control with the assistance of public-interest organisations.

Before considering measures to address the crisis arising from the Enron Dabhol project, it is essential to respond to its advertisements that all is well with the project and that the problem really stems from the Maharashtra State Electricity Board's (MSEB's) weaknesses - its subsidy for irrigation, its high transmission and distribution (T&D) losses, its failure to stem theft and collect dues, etc. While all these criticisms are valid, they are applicable to all other sources as well. They are not unique to Dabhol power and are therefore no explanation of the MSEB's inability to pay for Dabhol power.

The immediate problem is to staunch the financial haemorrhage of the MSEB and Maharashtra arising from the price of Dabhol power. Several possibilities need examination. How such ruinous power projects have been ended in other countries must be studied. A thorough exploration of all the legal escape routes is necessary. Can environmental laws be invoked? A massive publicity effort exposing the project as the ``rip-off of the millennium" should be considered in the hope that Enron will be affected in the way Shell was in Nigeria by the ``Boycott Shell; Free Nigeria" campaign against environmental damage. The assistance of NGOs in the industrialised countries may help.

If the Enron Dabhol project were the first and last of a kind, then the lessons mentioned above would purely be of academic and historical interest. Unfortunately, it appears there are many Dabhol clones or lookalikes with damaging consequences. Hence, it is crucial to resort to urgent measures to prevent Enron-type damage spreading elsewhere.

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