

Direct Benefit Transfer for Electricity

Why in news?

\n\n

Mandatory use of Direct Benefit Transfer (DBT) for all electricity subsidies has been proposed in the recent draft amendments to the Electricity Act and the National Tariff Policy.

\n\n

How does DBT help?

\n\n

\n

- DBT is a method through which a subsidy will be directly transferred to the bank accounts of consumers.

\n

- DBT has reported success in subsidies for LPG and for wages under MNREGA.

\n

- It potentially helps to target subsidies, incentivise behaviour change and reduce wastage of public funds.

\n

- At present, the electricity subsidy is provided by the State government to the distribution company (Discom).

\n

- However, Rajasthan government announced DBT for providing Rs.10,000 as subsidy annually to each agricultural consumer.

\n

- Punjab and Gujarat are also using the mechanism in small-scale pilot projects.

\n

\n\n

What are the precautions to be taken before implementing?

\n\n

\n

- **Over-estimation** - About 90% of electricity subsidies accrue to agricultural

consumers and some sections of residential consumers.

\n

- However, most beneficiaries are unmetered and the subsidy is provided on assumed consumption norms, which are often overestimated.

\n

- e.g In UP the assumed monthly consumption for a rural home is 72 units, which is closer to the average consumption of homes in Mumbai and Hyderabad, typical urban areas.

\n

- Such overestimation implies that losses incurred by the Discom are taken as additional consumption by unmetered consumers, which State governments end up subsidising.

\n

- In such a case, DBT could never end overestimated consumption, as the benefits will somehow be transferred to consumers.

\n

- **Identification** - There are issues in identifying the subsidy recipient where the users of electricity are tenants, but the connection is in the name of the property owner.

\n

- There is a need for legal and regulatory steps to ensure that the subsidies are provided to electricity users rather than the owners.

\n

- Similar safeguards should be ensured for joint ownership and in cases of inheritance issues.

\n

- **Prior deposition** - Consumers might find it difficult to manage if the unsubsidised bill is to be paid prior to subsidy transfer.

\n

- Therefore, similar to DBT in LPG, some subsidy can be deposited initially into the bank accounts to enable first payment.

\n

- **Delay in payment** - Currently, subsidy payments are often delayed by State governments for prolonged periods to discoms.

\n

- Though unfair, at least DISCOMs were able operate. But same will not be the case when it comes to individual households.

\n

\n\n

What should be done?

\n\n

\n

- Section 65 of the Electricity Act can be amended to provide regulatory mandate for monitoring DBT implementation when adopted by the state.
\n
- Also, before universal DBT for electricity is applied, close attention needs to be paid to on-going pilots and more large-scale pilots.
\n
- Electricity Regulatory Commissions, Discoms and State Governments should allow different kinds of pilots with strong monitoring, evaluation and learning mechanisms, before signing on to universal adoption.
\n
- Further, there is a need for third-party audits authorised by regulatory commissions.
\n

\n\n

\n\n

Source: Business Line

\n

