Hope for Distressed DISCOMs

Why in news?

The Union Power Ministry's latest set of rules hopes to improve the financial health of DISCOMs.

What are DISCOMs?

- DISCOMS are power distribution companies that buys products from the manufacturer and then generally resells them for a profit to a retailer or, in some cases, directly to the customer.
- The health of DISCOMs is crucial to keep the wheels of the economy running.
- They are regulated entities in India, with almost all consumer prices set by independent state electricity regulatory commissions.

Aggregate Technical & Commercial (AT & C) Losses

• It is combination of energy loss (Technical loss + Theft + inefficiency in billing) and commercial loss (Default in payment + inefficiency in collection).
• AT&C Losses = (Energy input – Energy billed) * 100 / Energy input.
• It provides a realistic picture of loss situation in the context it is measured.

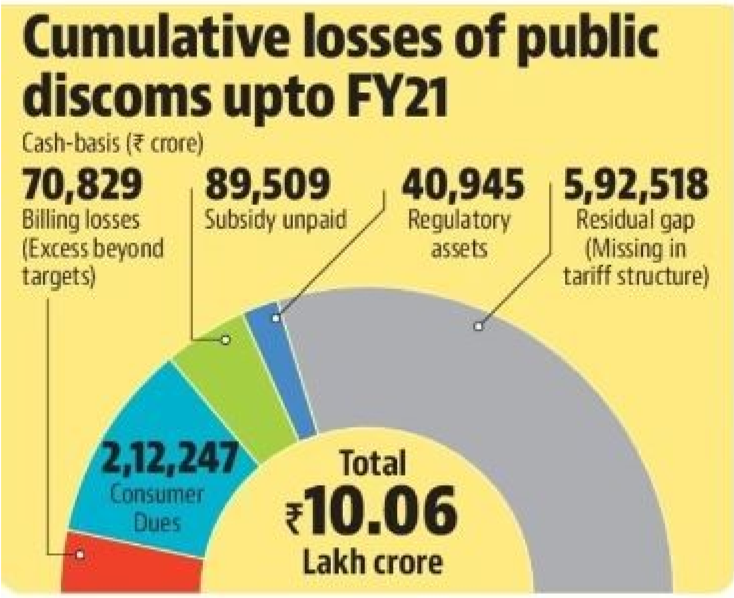
ACS-ARR Gap

• It is the gap between the average cost of supply (ACS) and the average revenue realised (ARR).

What are the issues with DISCOMs?

- **High AT & C losses-** It is arising due to issues with tariff that affects the ability of discoms to buy power to supply to the consumers.
- **Lack of compliance-** There was no legal framework for the reduction trajectory in AT & C losses.
- **Low utilisation of generation capacity-** Inadequate utilisation of generation capacity was the key contributor to power deficit. It is due to
  - Shortage of fuel, especially coal, and
  - Unviable Power Purchase Agreements.
- **Differential tariff-** Average tariff was highest for commercial and industrial (C&I) purposes and lowest for agriculture consumers.
- For example, DISCOMs in the north-eastern states and agrarian states are especially dependent on government subsidies.
- **Delay in tariff revision**- The delay in periodic tariff revision would lead to huge financial loss for DISCOMs.
- **Increase in borrowing of State owned DISCOMs-** The interest cost on the loans worsens the poor finances of state discoms. It affects their ability to buy power, thus leading to power deficits.

- **Outstanding debts**- High level of debt and payments owed to generation companies by the States leads to financial loss.
- **Impact of COVID-** The sharp downturn in demand from high-paying C&I customers during the lockdown negatively impacted the discoms' finances.



Steps Taken to Boost the Power Sector
• **Accelerated Power Development Program-** It was launched in 2001 to provide central assistance for renovation of power plants and distribution network. • **Accelerated Power Development and Reforms Program**- It was launched in 2003 to reduce AT & C losses, to increase revenue collection and improve customer satisfaction. • **Electricity Act, 2003-** It introduced multi-year tariff, power trading and open access. • **National Tariff Policy 2006-** It provides power procurement through tariff based bids and to ensure electricity availability to consumers at comparative rates. • **Financial Restructuring of State Distribution Companies-** It was launched in 2012 which allows DISCOMs to issue bonds backed by State Government. • **24*7 Power for All-** It is State specific power development plan that provides 24*7 electricity access. • **UDAY-** Ujwal Discom Assurance Yojana was launched in 2015 that allows state to take over 75% DISCOM debt. • **KUSUM**- It was launched in 2018 which aims for 10 GW of solar distribution grid. • **Saubhagya-** It was launched in 2017 to provide universal electricity access.

What are the new rules?

- **Mandate-** Central Electricity Authority has been mandated to issue guidelines for establishing norms for operation and maintenance of the distribution system
- **Legal framework-** State Electricity Regulatory Commissions have to ensure compliance in reduction of AT&C loss reduction trajectory.
- In case of non-adherence, punitive action can be taken by the respective states.
- It is also provided that gains or losses accrued to distribution licensee due to deviation from approved AT&C loss reduction trajectory would be shared between the distribution licensee and consumers.
- **Subsidy payment**- The payment of subsidy should be assured at the time of tariff

finalisation in order to ensure financial sustainability of DISCOMS.

- **Submit quarterly report-** Distribution licensee should submit the report to the State Government.
- **Transparency-** To ensure the recovery of full costs incurred by the distribution licensee in distributing electricity, all prudent costs of power procurement must be done in a transparent manner.
- **Reasonable Return on Equity (RoE)-** The Rule provides that the RoE by the State Commission would be aligned with the RoE specified by the Centre Electricity Regulatory Commission in its Tariff Regulations.

What lies ahead?

- There is a need to improve the methodology of Annual Revenue Requirement filings, bridge the gap between costs and revenues.
- The Centre should ensure more effective cash flow management, and reduce reliance on cost true-up petitions.
- There is a need of constant dialogue between all stakeholders to ensure the measures are implemented in their true spirit.

References

1. Business Line- Ray of hope for distressed DISCOMs
2. PIB- Measures by power ministry