Re-modeling our DISCOMs

What is the issue?

\n\n

\n

- Disruptions in technology, regulations, and business models are forcing power distribution companies (DISCOMs) to take stock of their future.
\n
- DISCOMs need to get innovative and redesign their tariff structure and business model to tide over this impasse.
\n

\n\n

What are the problems in plaguing the Indian DISCOMs?

\n\n

\n

- Indian DISCOMs are financially strained - at the end of FY16, total outstanding debt was Rs 4,146 billion and annual losses were Rs 657 billion.
\n
- There are significant challenges in the sector that demonstrate how short-term measures will not suffice to hold off the long-term collapse.
\n
- **Purchase agreements -** 75-80% of a DISCOM's costs are in power purchase and many are locked into expensive agreements (PPAs) for decades.
\n
- Improper planning, and technical constraints in operating the grid, has been costing as much as Rs 200 billion annually.
\n
- **Cross Subsidisation -** DISCOMs charge "commercial and industrial (C&I) consumers" very high tariffs.
\n
- This is to compensate for subsidies provided to residential and agricultural consumers, for whom tariffs are kept artificially low for political reasons.
\n
- High tariffs combined with unreliable supply have rendered Indian industry uncompetitive in global markets.
\n
- To counter this, industries were forced to build capacity for captive

electricity generation – which accounted for as much as 17% of all DISCOM sales in Fy17.
\n

- Notably, C&I consumers currently have new options for distributed generation of renewable energy - like installing solar systems in their premises.
\n
- Hence, by charging exorbitant tariffs and providing unreliable power supply, DISCOMs will eventually drive away their best paying consumers.
\n
- **Government Initiatives -** "Power for All, Make in India, and speedy deployment of renewable energy" are further complicating the sector's woes.
\n
- There is a need for DISCOMs to rethink their business models and reorient towards a more sustainable future.
\n

\n\n

What is the way ahead?

\n\n

\n

- **C&I Consumers -** Make in India, as conceived, has a focus on high value-add sectors such as electronics and ICT, aerospace, and defence manufacturing.
\n
- Additionally, a vast majority of the MSMEs (which are mass employers) too are dependent on electricity for their production processes.
\n
- Considering India's growth rate, there is hence a need for higher electricity-intensity and improved reliability for units.
\n
- A rationalised tariff structure would help to retain existing consumers and draw in new market entrants for DISCOMs.
\n
- **Power for All -** This is dependent on many factors that range from engineering and execution challenges like:
\n

\n\n

\n

- Electrifying 3.3 million household per month.
\n
- Ensuring that reliable and regular power is supplied

\n

- Metering and billing the consumption effectively.

  \n

\n\n

\n

- For DISCOMs, addition of these new consumers will saddled with more financial burden due to the subsidies that they'll have to be provided.

  \n
- Agricultural and residential consumers together account for 50% of the sales volume but only 30% of the revenue.

  \n
- But there are indications that a considerable chunk of the rural masses are willing to pay higher for unintrupted and quality power supply.

  \n
- To cater to this aspiring group of consumers, DISCOMs have to reduce power procurement costs and upgrade their infrastructure.

  \n
- **Renewables -** New renewable energy projects offer hopes for reducing costs and increasing revenue for DISCOMs.

  \n
- Renewable energy is also important for India's battle against climate change, and the full potential of this domain needs to be exploited.

  \n
- Private roof-top installations have started producing significant amounts of power lately, but DISCOMs are largely seeing this trend negatively.

  \n
- DISCOMs see individual generators are predating their revenues, which needs to change by co-opting them with a more positive approach.

  \n
- Notably, these private generators produce and consume at the same time and are charged based on a two-way metering which indicats net power intake.

  \n

\n\n

\n\n

Source: Business Stanadard

\n