

Reforming Discoms

What is the issue?

- There is a steep fall in electricity demand with the onset of Covid-19.
- This has pushed power distribution companies, already in dire financial straits due to a tangle of structural factors, into a deeper mess.

What is the distress?

- Discoms' dues of over ₹1 lakh crore to power generators cannot be paid off in a hurry, unless their finances are knocked into a semblance of order.
- Realising that the country cannot afford a sputtering power sector, the Centre announced a relaxation in credit limits for discoms.

What is the announcement?

- Power Finance Corporation and Rural Electrification Corporation will extend **loans to discoms** to meet liabilities towards gencos.
- These loans will be given on a one-time basis, which will be over and above the working capital loan limit of 25% of last year's revenues.
- The contours of a rescue plan were drawn up in May, when the Finance Ministry announced a ₹90,000 crore liquidity package for discoms.
- However, the credit infusion should be accompanied by structural reforms.

What are the troubles of discoms?

- The financial troubles of discoms can be traced to the,
 - 1. High cost of power purchased by them,
 - 2. Erosion of their customer base with the rise in open access and captive power generation, and their operational inefficiencies.
- Thermal power costs have risen on account of poor fuel supply linkages and transportation costs from the mines to plants.
- Rapid capacity additions over the last decade, outpacing demand in recent years, contributed to lower capacity utilisation.
- This, in turn, has contributed to the transfer of higher per unit fixed costs to discoms.
- Improvement in battery storage technologies is a game-changer.
- With bulk users opting for open access and captive generation, the discoms' skewed cross-subsidisation model has come under stress.

What would the discoms do?

- Discoms should **refrain** from entering into **long-term contracts**, given the rapid technological advancements in renewable.
- This is because the prices of the renewable are more than competitive vis-a-vis coal-fired power.
- Discoms will feel the pressure to trim technical and commercial losses.
- Agriculture losses can be curtailed by shifting to grid-based solar power.
- As for their universal service obligation to provide cheap power, direct benefit transfers will help deal with liquidity issues.
- **Tariffs** should be recalibrated to encourage use during lean hours.
- While discoms should not play foul by resisting consumers' shift to open access, they should be allowed to charge more from consumers who shuttle between options.
- Even as cross-subsidy becomes unviable, tariff rationalisation should help them improve their finances and provide quality power to all.

Source: Business Line

