ANALYSIS OF DISCOMS IN INDIA

Abstract

This paper aims to analyze the **power distribution companies** of all the states and union territories of India on financial parameters. The Power distribution companies are responsible for supply and distribution of energy to the consumers(industry,commercial,agriculture,domestic etc.). However, most of the distribution companies incur losses every year- the total loss is estimated to be ₹ 90,000 crore in FY 2021. DISCOMs' troubles stem from two factors -their inability to bring down transmission and distribution (T&D) losses and inability to raise tariffs in line with rising costs. The paper also highlights the financial implication of provision of free electricity to consumers by some of the state governments. Such freebies may benefit the poor if properly targeted with minimal leakages, but their advantages must be evaluated against the large fiscal costs and inefficiencies they cause by distorting prices and misallocating resources. This paper also entails a comparative table of debt on DISCOMs of different states and the reasons for the same.

Introduction

Electricity distribution companies (DISCOMs) are the **primary source of cash inflow** into the power sector. If customer payments do not cover electricity supply costs, the gap is usually met through Government subsidies, chronic indebtedness or bankruptcy. Hence **financial stability** of DISCOMs is of great importance.The power distribution sector provides utilities to the consumers. In India, the DISCOM provides energy supplies against the payments from the use₹ But they have been facing persistent shortfall in cash inflows. DISCOMs are traditionally the weakest link in the electricity value chain plagued by low collections, rise in power purchase cost, inadequate tariff hikes and subsidy disbursement, and mounting dues from government departments. In revenue collection, issues like billing, metering, and collection challenges stand out

The tariff related to electricity transmission and distribution is a politically sensitive issue. Due to this, there has been a trend of subsidization in its price. This has led to an increase in burden on the already suffering situation of DISCOMS **(estimated losses of ₹ 90,000 cr for FY 21)** [NITI AAYOG] Despite a number of schemes by the government, the problem has persisted. Also, when governments offer cheap or free power to households or farmers, they have to compensate Discoms for the residual amount. This is done in two ways. State governments subsidize or end up taking over the debt of Discoms. One way to recover the cost of cheap tariffs is cross subsidization which can be stated as when a marketer charges higher prices to a group of consumers in order to subsidize lower prices for another group. In the end, it is the consumer who ends up paying as commercial users pass on these costs. This concept is popularly known as **'There's No Such Thing as a Free Lunch'**, which is the name of a book by Nobel Prize-winning economist Milton Friedman, who showed that everything has to be paid for by taxes if not today or tomorrow, then the day after.

It becomes all the more important to address these concerns as the primary responsibility of the governments of providing 24×7 power supply to all consumers lies with the concerned Power Distribution Companies (DISCOMs). The need is for better transmission technology, proper measurement of usage and money collection system, henceforth ensuring efficient operation of discoms. Solutions like use of global expertise, structural reforms, and better technology are needed, but a major focus on a flexible approach suitable to India's demography is needed.

Current Status of DISCOMS

In India, electricity is a concurrent subject, which means that both the central and state governments are responsible for its development. Electricity can be divided into 3 stages- **generation** (NTPC, NHPC, etc.) being the central generation utilities, **transmission** (POWERGRID is the central transmission utility and Gencos and Transco is at state level), **distribution** (DISCOM being heavily in debt). DISCOMS are under the state subject list. So, the central government can't do anything directly. The distribution (in electricity) sector is facing major challenges and there are huge technical and commercial losses. Most of the State discoms are in loss and have become financially unviable. Central government has in the past given financial support several times but their condition did not improve. Also, it is fairly obvious that people prefer efficiency to freebies. They don't mind paying reasonable user fees for a consistent supply of electricity rather than being lulled by the promise of free supply that is limited to, say, a couple of hours per day. In economics, there is no such thing as a freebie because someone has to pay for the seemingly free giveaways.

There are many challenges associated with DisComs. They are held accountable for inefficiency, which includes large losses known as Aggregate Technical and Commercial (AT&C) losses. The regulators have failed to implement cost-reflective tariffs, resulting in high debts for the DisComs. They are facing significant payables challenges. The biggest defaulters are state governments. **With the rise of renewable energy, premium customers are leaving the Discom system in stages**, and as battery technologies mature, their reliance on DisComs may diminish. With the ease of regulations in the sector, third-party suppliers can operate under competitive models, resulting in increased competition in the electricity supply business. COVID-19 has completely shattered incoming cash flows to utilities.

The financial position of DisComs is very bad as they owe large sums to generators and also have high short-term dues apart from the long-term debt owed by them. As per Government's PRAAPTI (or

Payment Ratification And Analysis in Power procurement for bringing Transparency in Invoicing of generators) portal, **discoms are unable to pay for generators on time. The overdue amount being ₹ 1,14,145 crore as against ₹ 912 crore paid against overdue as on August, 2022. The current dues amount to ₹ 20,965 crore and ₹ 880 crore paid against them as on August, 2022(PRAAPTI).** According to Power Ministry data, states and union territories together owed more than one lakh ten thousand crore rupees to generating companies while the total money owed to the discoms stood at one lakh forty thousand crore. The annual power subsidy schemes and financial assistance amounts to ₹ 42,155 crore in five heavily indebted states, namely, Madhya Pradesh, Jharkhand, Andhra Pradesh, Punjab, and Rajasthan.

PM Modi recently announced ₹ 3 lakh crore amount to reform the electricity distribution sector, while blaming 'freebies culture' for the rising overdues. The scheme will offer financial help for improving infrastructure, including pre-paid smart metering, upgradation of systems etc. The objective of the scheme being reduction in pan-Indian aggregate technical and commercial (AT&C) losses to around 12-15% from the present 21.73% and the leading to no gap between the average cost of supply and average revenue realized by FY25 from the present 0.39 rupees per Kwh. Providing grants to state discoms depends upon them meeting some performance criteria, as monitored by the concerned agency. The package for DisComs though comes as a much required relief, it is criticized as being grossly insufficient given the financial position of the DisComs as the schemes announced from long ago have not been able to ensure a sustainable turnaround of the discoms. A turnaround, in terms of both finances and operations, remains urgent. Thus, political will along with strong support is required across all state governments for the current schemes to bring a change.

State wise Situations (Data)

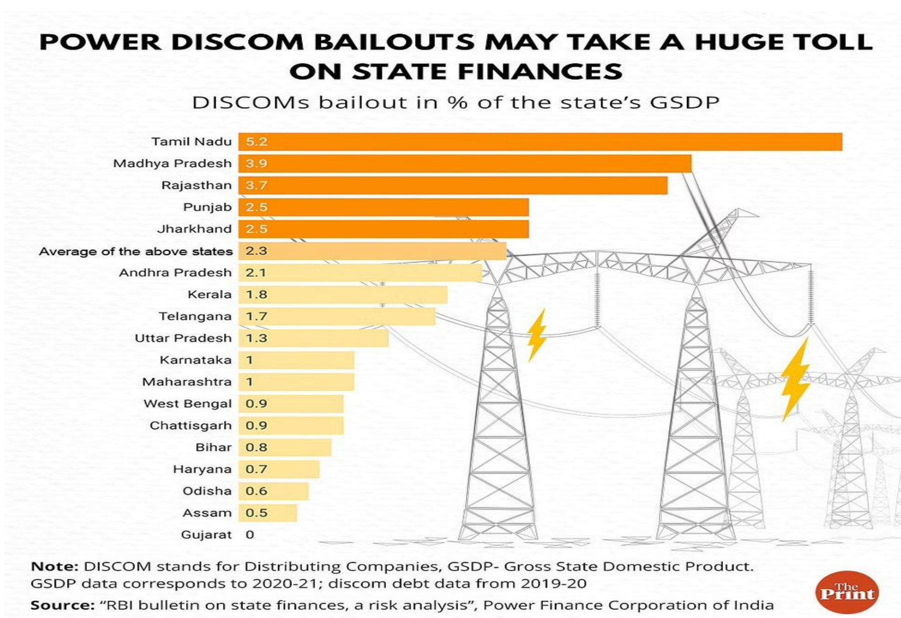
India has made impressive strides in increasing access to the quantity and quality of electricity and in expanding renewable capacity, for which the governments deserve credit. But the financial health of the power sector is rapidly deteriorating .

S.No	States/UTs	DisCom Name	Debt(In ₹ Crore)
1.	Andhra Pradesh	APSPDCL	26,811
2.	Arunachal Pradesh	Arunachal PD	0
3.	Assam	APDCL	2,429

4.	Bihar	BSPHCL	6,726
5.	Chhattisgarh	CSPDCL	4,102
6.	Goa	Goa PD	0
7.	Gujarat	GUVNL	636
8.	Haryana	DHBVN	6,864
9.	Himachal Pradesh	HPSEBL	5,549
10.	Jharkhand	JBVNL	10,530
11.	Karnataka	KPTCL	22,766
12.	Kerala	KSEBL	20,310
13.	Madhya Pradesh	MPPKVVCL	49,112
14.	Maharashtra	MSEDCL	39,086
15.	Manipur	MSPDCL	262
16.	Meghalaya	MEPDCL	624
17.	Mizoram	Mizoram PD	0
18.	Nagaland	Nagaland PD	0
19.	Odisha	OPTCL	4,598
20.	Punjab	PSPCL	16,258
21.	Rajasthan	JVVNL	48,934
22.	Sikkim	Sikkim PD	0
23.	Tamil Nadu	TANGEDCO	1,24,413
24.	Telangana	TSSPDCL	21,947
25.	Tripura	TSECL	414
26.	Uttarakhand	UPCL	1,902

27.	Uttar Pradesh	UPPCL	58,327
28.	West Bengal	WBSEDCL	14,222
29.	Andaman and Nicobar Islands	Andaman & Nicobar PD	0
30.	Chandigarh	Chandigarh PD	0
31.	Dadra and Nagar haveli & Daman and Diu	DNHPDCL, Daman & Diu PD	0
32.	Delhi	DERC	5,631
33.	Jammu and Kashmir	JKPDD	0
34.	Ladakh	-	-
35.	Lakshadweep	Lakshadweep ED	0
36.	Puducherry	Puducherry PD	179

Source: REPORT ON PERFORMANCE OF POWER UTILITIES, 2019-20



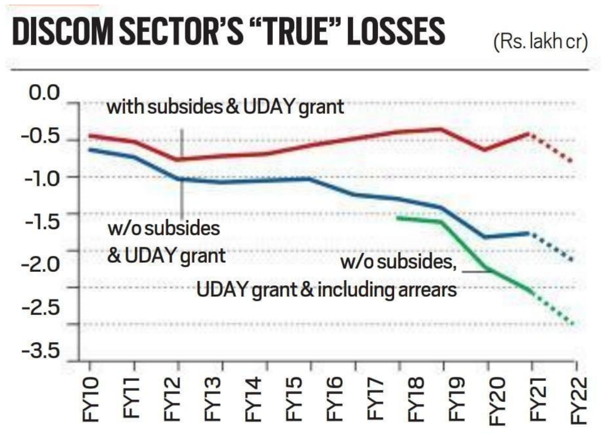
SOURCE:- RBI Bulletin on state finances

State wise Analysis

The Power Distribution Sector has been the **'Achilles' heel**' of the power sector,consistently making large losses. DISCOMs are struggling under massive debt to the thermal power sector. Power distribution companies collect payments from consumers against energy supplies to provide cash flows to generation and transmission sectors to operate. But due to perennial cash collection shortfall and accumulated losses , often due to payment delays from consumers and provision of free electricity to consumers by many state governments, DISCOMs are unable to pay for generators on time. This gap/shortfall is met by borrowings(debt), government subsidies and through reduced expenditure. This increases the DISCOMs' cost of borrowing, which is inevitably borne by the consumer. Private Sector involvement can reduce government's exposure to many forms of financial risks. But unfortunately most of the DISCOMs India are state owned and only 10% of the consumers are served by private distribution licensees.

Rise in consumer arrears, rising power purchase cost, non revision of tariffs and mounting deficits have led to a significant increase in DISCOM debt. An Energy Economist from Institute for Energy Economics and Financial Analyses clearly said that the major reason behind debt on DISCOMs is that the tariff they charge from consumers is lower than the average cost of power purchase. Some of these gaps are met by government subsidies but when these subsidies aren't paid on time by state governments, it adds pressure on DISCOMs to do additional borrowings to meet working capital requirements. Also DISCOMs need to raise tariffs on an annual basis but many DISCOMs have not raised tariffs for many years, though their costs have gone up, thereby increasing the gap between average cost of supply and annual recurring revenue.

Free schemes for the whole population can never be considered as a feasible solution to any problem. Providing favors to specific groups in exchange for votes and power comes at no cost to legislators, but it comes to the public exchequer which bears the brunt of all politically motivated decisions.
The single biggest challenge for the state is to attain financial viability for the DISCOMs by covering the costs of power generation and distribution from the sale of electricity. Currently DISCOMs are under substantial losses driven by inability of DISCOMs to raise electricity tariffs.



SOURCE:- Based on RBI data and Performance Report of Power Utilities Report.

Andhra Pradesh

Andhra Pradesh DISCOMs are unable to pay monthly bills of Power Plants including heavy dues to renewable energy generators because of a serious financial crunch. AP Electricity Regulatory Commission registered a **large revenue gap of 24.18%**. In terms of money, this state's DISCOM faces a revenue shortfall of 10,345 Cr. Experts suggest that there is a great need to undertake deep structural reforms to undo the damage to the Power Sector.

To meet the ever growing demand for power, the government has targeted a minimum total solar power capacity **addition of 5,000 MW** in the next five years in the State with a view to meet the requirement in an environmentally sustainable manner. All registered companies, Government entities, partnership companies/ firms, individuals and all consumers of APDiscom(s) will be eligible for setting up of Solar Power Projects within the State for sale of electricity/captive use, in accordance with the Electricity Act-2003.

In this regard, the AP government also announced Industrial Development Policy 2020-23. This policy proposes interventions across infrastructure, The new industrial policy for 2020-23 proposes interventions across infrastructure, ease of doing business, skill development, business enablement and fiscal incentives.

Bihar

There has been significant improvement in peak demand met in Bihar from 1712 MW in 2011-12 to 4535 MW in 2017-18 which implies a **growth of around 165% in six years**. Also in order to meet the increased demand, the state government has already planned for additional capacity through sources like own generating stations, central generating stations, renewable energy sources, and long/

medium term Power Purchase Agreements (PPA) through competitive bidding. The revenue enables the state government to improve the entire supply chain, by purchasing more electricity from the central sector. Thus, a major challenge of the power sector reforms lies in the efficient management of the distribution sector. distribution companies are already implementing several schemes for expanding and strengthening their distribution networks.

The transmission network in Bihar is not satisfactory and needs considerable investment to ensure more reliability and quality of power supply. A new program to support the creation of a reliable transmission system was conceived under the **Rashtriya Sam Vikas Yojana scheme**, providing for expansion of the grid to meet the impact of electrification and growth in demand. Bihar has decided in principle to restructure its power sector and set up new entities to manage different functions of generation, transmission, and distribution. However, there is some debate on the number of distribution companies to be formed. The central government and the Government of Bihar are engaged in a dialogue regarding the state road map for power sector reforms. Other aspects such as government support to implement anti-theft measures, payment to DISCOMs of past due electricity bills of government departments, timely disbursement of subsidies to DISCOMs, timely acquisition of land for projects are all essential to improving the power sector.

Gujarat

Two of the four Gujarat state-owned power distribution companies (Discoms) topped in the 10th Integrated Rating of Power Distribution Utilities, released by the Union Power Ministry. This success could be attributed to the **government's proactive consumer-oriented approach** and various innovative measures to increase power facilities. to the government's proactive consumer-oriented approach and various innovative measures to increase power facilities. Higher tariff realization compared to previous years led to an improved surplus. Diminishing dependence on subsidies accompanied by low borrowings and a consistently high collection efficiency has resulted in increased liquidity and profits. Cost reflective tariffs and a well established regulatory regime ensure cash flow robustness of the DISCOM. Gujarat utilities have been progressive and have constantly worked out new models of operation. Also, the functioning style of the state leadership percolated to the management of discoms.

Haryana

Haryana was able to **reduce aggregate technical and commercial (AT&C) losses by 2.87%** in 2020-21.The transmission losses came down from 16.50% to 13.63% in 2020-21. One of the major reasons for AT&C loss is electricity theft. To check the theft of electricity, campaigns were organized from time to time by DHBVN with special teams to check electricity theft and monitor them regularly. Government departments and agencies were asked to pay electricity bills on time and a large-scale exercise was also launched to disconnect electricity connections of defaulting consumers.

Himachal Pradesh

Himachal Pradesh State Electricity Board(HPSEB) has **earned Rs. 109 Cr as total additional revenue** by exceeding electricity generation targets from its hydel projects.

Himachal Pradesh Government has also entered into freebie politics and recently announced to provide **free power upto 125 units**. This is considered as a measure to enlarge the vote bank and this is being termed as a 'hoodwink' by the Opposition parties. This **'Revdi' culture** is extremely dangerous and unsustainable for the development of any country. Freebies potentially undermine credit culture and disincentive work at the current wage rate leading to a drop in labor force participation.

Madhya Pradesh

According to the Union power ministry's PRAAPTI portal, as of 4 August, discoms in Madhya Pradesh had an **outstanding due of ₹8,190 crore** to Power Distribution and Generation companies. Madhya Pradesh spent Rs.47,932 crore between 2018-19 and 2020-21 which will further increase as the state government has announced it will set aside an additional Rs.16,424 Cr in order to provide power subsidies to farmers. Apart from this, the state already has ₹5,582 crore subsidy scheme for domestic consumers.

Punjab

The populist announcements and cash outlays in the run-up to the 2022 state assembly elections were expected to significantly increase the state's debt burden beyond the projected limit. Over the years, populist politics and the desire to splurge have pushed Punjab to the point where a large portion of its earnings and market borrowings are spent on debt servicing rather than capital expenditure. Punjab is one of India's **most heavily indebted states**. AAP is most likely attempting to replicate its Delhi model in Punjab, oblivious to the vast differences in liabilities and finances between Delhi and Punjab. States with the **highest debt GSDP ratio** in the last financial year are Punjab(53.3%), Rajasthan(39.8%), West Bengal(38.8%) and Andhra Pradesh(32.4%). As the economy recovers, states' revenues have shown a recovery due to higher transfers made by the Centre on account of tax devolution.

Punjab already has too many subsidies, including free power for farmers and every BPL, SC, and ST family on 200 units of electricity, as well as fertilizer **subsidies** and price support for agricultural crops. There is also the issue of unpaid power bills to the Punjab State Power Corporation Limited (PSPCL) totaling over Rs 12,600 crore, which the previous government was unable to resolve. The State's power subsidy bill for FY 2022 was ₹ 10,668 crore, with farmers receiving 70% of the subsidy. The recent elections have demonstrated that parties continue to use **freebies** as a bargaining chip with voters. Punjab remains one of India's most indebted states, with a debt that exceeds 47 percent of GDP (which is way above the 38.7 percent target mandated by FRBM Act). Punjab is expected to be the hardest hit, with its debt-to-GDP ratio exceeding 45% in 2026-27 and its fiscal position deteriorating further.

Recently, one of the biggest poll promises made by the AAP during the Punjab elections was to provide **300 units of electricity free of charge to everyone**, with no strings attached. However, a number of conditions were later imposed for exclusion like any family member being doctor, CA, engineer etc, income limit of the family such unless any tax is payable by anyone, electricity connection limit of 1 kW etc. It was clear that this scheme was neither practical nor in the best interests of all. According to sources, the decision will increase PSPCL's burden from Rs. 4,000 crore to Rs. 7,200 crore. This demonstrates Prime Minister Sh. Narendra Modi's claim that some states are promoting the culture of **Revadi (freebies)**, putting a burden on the pockets of ordinary people. The state should prioritize renewable energy by installing rooftop solar panels.

Raising Productivity and growth is the only way to generate more resources. Unfortunately, freebies reduce productive government expenditure, Second, they distort both production and consumption decisions. Free electricity-induced over-irrigation and choice of rice cultivation contributed to the largest rise in debt and cut in capital expenditures in Punjab.

Rajasthan

According to HDFC Bank research report, technical and commercial losses can account for up to 40% of discoms losses. At 27%, Rajasthan discoms have the **second highest average technical and commercial losses** (AT&T), trailing only Haryana. In 2014-15, Rajasthan **raised electricity rates** by 16%, the highest in the country. The average tariff increased by 10% between 2012 and 2016, but the loss increased by only about Rs 85,000 crore. Under UDAY, states are required to take over 75% of discom debt within two years, as opposed to a five-year period. This is intended to reduce interest costs on debt assumed by states by around 3-4%, improving overall efficiency. Rajasthan, which had among the highest debt levels of around ₹ 85,000 crore a few years back, will benefit from the faster transfer and faster freedom from the pressures of high interest borrowings and the spiral that follows. Rajasthan,Kerala and West Bengal are projected to exceed the debt-GSDP ratio of 35% by 2026-27.

Tamil Nadu

Free or heavily subsidized power supply and the mess in India's power sector are frequently in the news, with states like Punjab, Haryana, and Delhi high on the recall list for using electricity as a "freebie." However, it turns out that it is the power sector in Tamil Nadu, not any of these states, that is responsible for the **country's biggest financial mess**. According to data, the Tamil Nadu government will have to pay 5.2 percent of the state's GSDP to clear 75% of its DISCOMs' debt (Gross State Domestic Product).

This means that for every Rs 100 earned by people in the state in 2020-21, at least ₹ 5 will have to be spent on repaying the debts owed by the state's DISCOMs in 2019-20. Tamil Nadu is a power surplus state that can generate far more power than is required, but it continues to operate its old coal-fired power plants, increasing operational costs despite the fact that these plants are underutilized. Tamil Nadu also provides **subsidies to nearly all power users**. These subsidies cause power distributors in Tamil Nadu to incur huge losses as they charge subsidies to their customers, while producers have to pay their utility bills in full and the government often charges them on time. can't pay bills With no competitors in the electricity distribution sector in Tamil Nadu, DISCOM often lacks incentives to aggressively streamline its operations.

Telangana

Two distribution companies (discoms) in Telangana showed 'excellent' performance in metering distribution transformers, supplying power to unconnected homes and distributing power from LED lamps, but the separation of feeders. It performed “poorly” in some key areas such as **smart meters**. States such as Tamil, Nadu, Telangana and West Bengal have **not increased tariffs** for at least four years due to political and economic constraints. Most electricity regulators continued to resist consumer rate increases for fiscal 2021. In fact, out of his 22 states where he issued 21 tariff orders during the fiscal year, tariffs were only increased in her 8 states. Andhra Pradesh, Chhattisgarh, Karnataka, Punjab, Rajasthan and Telangana are among the states that have consistently failed to pay the full amount of their **subsidies** and their debts have risen. . These delays continued into his 2021 fiscal year, further increasing Discom's short-term working capital requirements.

Uttar Pradesh

There is typically a gap of Rs 120-150 crore per month between the electricity bill and the revenue generated by the consumer. Distribution companies (discoms) in Uttar Pradesh made a total loss of ₹

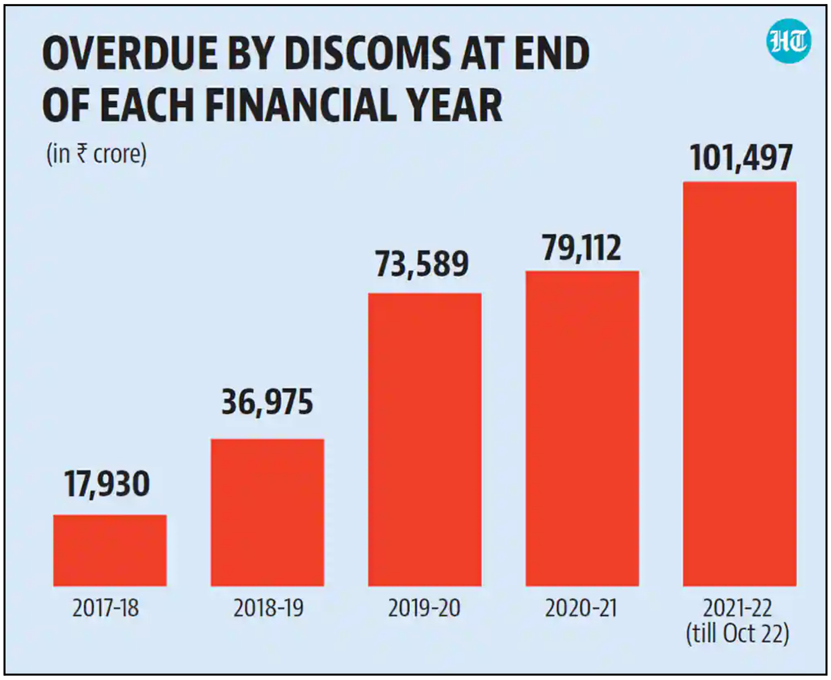
21,486 ($3.2 billion per unit) by 2016. A study by the Global Subsidy Initiative (GSI) found that successive governments have kept electricity prices low for **political reasons**, leaving discounters in the red. Underfunded nightclubs are unable to expand access to electricity, and the state has the largest number of people without access to electricity. Rural power generation causes the largest deficit in revenue, according to the study. Rural consumers account for half of all household consumption, **yet less than 25% of rural households using grid electricity are metered**. This compares with his 85% of urban households. Less than 10% of his rural population pays for meter-based grid electricity. The reason for high debts is the **falling payment rates**, especially during the lockdown as a result of suspended physical billing and payment collection, particularly in Uttar Pradesh, Maharashtra, and Haryana.

West Bengal

Low-wage consumers, who make up 90% of the total consumer base, contribute only 40% of retail sales. These consumers have doubled in the last six years, resulting in a total **technical and commercial (AT&C) loss** of 27%. Containment of technical and commercial losses will be a step towards optimizing the cost of power supplies and easing Discom's liquidity. West Bengal has raised an interim loan of ₹ 102.2 billion from the center to help distribution companies overcome liquidity stress amid the Covid-19 pandemic. The **loan** is part of the central government's ₹ 90,000 crore 'Atmanirbhar Bharat Abhiyan' package to support stressed vendors. West Bengal State Electricity Distribution Co Ltd (WBSEDCL) struggled financially with small collections in April and May, leading to a shortfall of more than 200 billion rupees, officials said. West Bengal Energy Minister Shobondev Chattopadhyay said the overhaul of the entire distribution network will include the existing 848 high and low voltage substations, plus the number of low voltage substations to address the problem of **low voltage supply**.

Delhi

The promise of endless freebies made by some of the political parties like AAP, will have to be financed by borrowings whose fiscal consequences will limit the state's development and economic growth. **CAG Reports** even showcase that Delhi government has consistently managed to have a revenue surplus, which continually prompted AAP to use this as a proof that its policies are fiscally prudent and do not impact the financial health of the state. However,the critics of such policies claim that these are fiscally prudent only in the short run and have long term impacts which make them unsustainable. AAP's proposals for **freebies** have accelerated since it was elected in Delhi(2016). But incentives during elections are never a sensible move. Such policies demonstrate a lack of long-term vision. Moreover, it's a general human tendency to use resources in excess when provided free which thus leads to wastage of these precious resources. The CAG Report concluded that the Delhi state government did not have any debt sustainability issue and also, when AAP came into power it had renue surplus of 4.2% which has declined gradually.



SOURCE:- Report on Power subsidies and politics(Hindustan Times)

(DISCOMs' debt has increased tremendously in the last 5 years. In 2017-18, the Overdues of DISCOMs amounted to Rs.17,930 Cr which has multiplied upto Rs.101,497 Cr in 2021-22.)

Steps undertaken

The Electricity (Amendment) Bill, 2022 aims to provide open access to the distribution network by allowing multiple discoms in the same area along with arrangements for one consumer category subsidizing the consumption of another consumer category. Under this bill, the government intends to bring in the principle of open access which will allow consumers to choose their electricity provider, regardless of who controls the physical infrastructure in their locality or state. This would be similar to the way in which they can select their mobile and internet service providers. The central government may describe rules for payment security and penalty imposition in case of failure to meet renewable purchase obligation. This bill is continually facing backlash; the protesters claim that this would pave the way for privatization of SEBs would result in sharp increase in the power tariff besides undermining the free power for agriculture. The efforts are continuously made but considering the situation, focus on proper implementation of such schemes is much needed. EA Bill faced immense criticism and has currently been sent to the Standing Committee for further deliberation.

The Ujwal DISCOM Assurance Yojana (UDAY) was first announced by the **Ministry of New and Renewable Energy** in November 2015. This scheme, which covers 32 states and all Union Territories, aims to raise annual tariffs, adjust quarterly fuel costs, reduce interest burden, rationalize coal prices, reduce fuel costs through coal swapping, and minimize time-bound losses, among other things. **By 2018-19, it aimed to reduce the aggregate technical and commercial (AT&C) loss (from 22% to 15%) and close the gap between average cost of supply (ACS) and average revenue realised (ARR)**.[India Brand Equity Foundation]

The Indian government launched the 'UDAY 2.0' scheme in the Union Budget 2020-21, with the goal of installing smart prepaid meters, prompt payments by DISCOMs, ensuring short-term coal availability, and reviving gas-powered plants. Furthermore, **Finance Minister Nirmala Sitharaman proposed a ₹ 3.05 lakh crore (US$ 41 billion) scheme [**Ministry of Finance] to revive DISCOMs and develop a framework to give electricity consumers a choice of service providers over a five-year period.

The central government launched the liquidity infusion scheme on May 13, 2020, as part of the **'Aatmanirbhar Bharat Abhiyan,'** in response to the country's COVID-19 pandemic. Revenues of power distribution companies (DISCOMs) plummeted as a result of the nationwide lockdown, as people were unable to pay their electricity bills. Under the **liquidity infusion scheme**, power distribution utilities (DISCOMs) had received loans totaling ₹ 1.35 lakh crore (US$ 18 billion) and had received disbursements totaling ₹ 46,321 crore (US$ 6.16 billion) as of March 2021.

Furthermore, **Power Finance Corporation (PFC) and Rural Electrification Corporation Ltd. (REC)** extended special long-term transition loans at concessionary rates to DISCOMs against state government receivables in the form of unpaid electricity dues and subsidy. This was done to allow them to pay off their outstanding debts to Central Public Sector Undertaking (CPSU) Generation (GENCO) & Transmission Companies (TRANSCOs), Independent Power Producers (IPPs), and Renewable Energy (RE) generators, which were due on June 30, 2020.

In 2021, the **'Reforms based and Results linked, Revamped Distribution Sector' (RRRD)** was announced by the Central government to revive the DISCOMs' finances. This scheme aims to improve operational efficiencies and financial sustainability of all DISCOMs through conditional financial assistance for strengthening of supply infrastructure. The central government aims to bring in private companies for distribution in Union Territories (which is administered through Central Govt.) This is expected to improve the situation of discoms and it may pay the way for privatization of discoms in States. i.e. if States see that privatization can help in improving the situation of Discoms then going forward they can also privatize discoms in their state.

Recommendations

The efforts and aims for improving the situation of discoms can be classified into short term and long terms. The short term work involves infusion of more liquidity than has been done so far and ensuring a manageable level of rising debt. This calls for a haircut in DisComs' debt obligations. For Long term, all the risk and future obligations should not be placed on DisComs alone. Generators, transmission companies, and lending institutions need to chip in. Along with that, there is a need to reduce AT&C losses through appropriate technical and regulatory practices and overhaul of the regulation of electricity companies and their deliverables. The regulators must allow cost-covering tariffs. The major focus areas include-

a) **Scraping off freebies from all the states**

   Freebie politics distorts expenditure priorities and financial outlays remain concentrated on such subsidies which is therefore, macroeconomically unstable. This 'Rewadi culture' needs to be eradicated from our political and social sphere. Instead of freebies for everyone, electricity could be provided to consumers at subsidized rates. This would be a financially sustainable and feasible strategy.

b) **Improving recovery system**

1. Incentives for online and early payment of bills such as Jaipur discom provides an incentive of Rs.5,000 to those paying timely through online mode by a lottery system. In Odisha, special rebates are provided for on timely payment of Electricity bill.
2. Providing safety nets for low income consumers who consume lesser energy
3. Training staff for better billing and collection is the need of the hour. Proper training of staff has always been sidelined due to lack of required infrastructure and adequate attention. There are three competency areas in which training is required ie. Technical, Management and Commercial. The Union Budget of India recommends every Ministry to allocate 2.5% of its budget for training and capacity building. The Centre needs to conduct inspections regularly so as to ensure whether this amount is being used efficiently for Training purposes.
4. Addressing non payment by investing in bill collection infrastructure

c) **DBT and additional fiscal headroom through subsidy reduction**

1. Taking lessons from the existing DBT models in Andhra Pradesh, Madhya Pradesh, Punjab, etc.
2. Developing framework for targeting of subsidies to domestic and agriculture consumers

d) Amortization of state government dues to address the liquidity crisis of discoms

1. Time-bound (like monthly/quarterly EMI) to manage pending dues and arrears
2. Avoiding dues build up by proper certification of state departments

e) Increasing tariff rates and managing regulatory asset

1. Issue bonds through securitisation of receivables against regulatory assets as done in Rajasthan
2. Inflation adjusted tariff hikes (similar to a Delhi discoms' proposal for FY 2022)

f) Managing the cost of operations

1. Public Private Partnerships could be promoted in the Power sector and private players could be roped in to assist ailing and underperforming DISCOMs.
2. Accelerating the implementation of the market-based economic dispatch. This would result in fair competition among power companies and would also reduce tariffs.

Conclusion

Power distribution provides last-mile connectivity, henceforth, an important link in the electricity chain. The bulk of distribution of the country's utilities are controlled by the state. An enhancement in the state power's financial and operational efficiency supplies are critical to the overall success in expansion of the Indian power sector. This point of view follows a thorough examination of the economy's economic and financial uncertainties, expected cash flows over the life of the loan and sufficiency of cash flow in relation to paying off the obligations. Public discoms need to act quickly to get their finances in order in order to maintain their credibility as energy suppliers. Implementation of the measures outlined above may bring some changes in the current situation. Growing Discom losses are likely to force states to prioritize reform over political and economic considerations, which is equally consistent with central support. The Electricity Act, 2003 was brought by the Government in 2003 in India, around 20 years ago. Since then, the energy industry has made great strides. The country has built self-sufficiency in meeting consumers' electricity needs, implemented groundbreaking regulatory reforms, and empowered consumers. Reforms initiated under the previous law can be difficult to sustain. It's time for the government to plan the next phase. A concerted effort is needed to usher the energy sector into a new era of financial sustainability and operational efficiency.

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