



Ujwal DISCOM Assurance Yojana

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This article is based on **“UDAY scheme loses power, sharp spike in discom losses”(IE)**, **“Power under pressure”(IE)**, **“Power Minister lays out govt’s agenda for 2020; here are reforms planned for power sector”(FE)**. It talks about issues related to UDAY scheme.

Government of India launched the **Ujwal DISCOM Assurance Yojana (UDAY)** in November 2015. It was designed to turn around the precarious financial position of state power distribution companies (discoms). Discoms are responsible for buying electricity from the generation companies and selling them to consumers.

The Discom losses, which had progressively reduced in the first couple of years (since the inception of UDAY), have rebounded in 2019 to nearly double the losses recorded the previous year.

According to PRAAPTI (Payment Ratification And Analysis in Power procurement for bringing Transparency in Invoicing of generators) portal, the discoms’ total outstanding dues to power gencos (power generating companies) rose 48% to Rs 81,010 crore in October 2019.

The primary reason for this is the failure of discom to collect the full cost that they pay for power.

What are the issues in the power distribution sector?

- India now generates more power **than it needs (surplus power)**. But, the practical experience signals that the scheduled and unscheduled power cuts are the norms in cities, and the situation in most rural areas is worse.
- This means the consumption of power has consistently lagged behind availability.

- **Reasons for financial losses of discoms:**

- The discoms suffer **Aggregate Technical and Commercial (AT&C) Losses**.
 - **Technical Loss:** It is due to the flow of power in transmission and distribution system.
Almost **25%** of the power is lost, and never gets billed.
 - **Commercial Loss:** It is due to the theft of electricity, deficiencies in metering, etc.
- The gap between the **average per-unit cost of supply (ACS) and average revenue realised (ARR)**.
- The remaining **75%** is sold at prices that are much lower than the discoms'

procurement costs.

Key Words

- **Average per-unit cost of supply:** It is the cost incurred by the discom in procuring electricity from power generators and further distributing it.
- **Average revenue realised:** It is the cost received by the discom after selling it to final consumers.

- In almost every state, the increase in tariff rates is avoided because of the associated political costs.
- Therefore, political unwillingness is at the heart of commercial losses.
- Due to this, there has been a gap between ACS and ARR.
- As a result, by March 2015, discoms' accumulated losses were approximately Rs 3.8 lakh crore — more than 3.5% of the GDP.

In order to make discoms financially viable, UDAY scheme was launched. The scheme has **three critical components**.

- **The takeover of discoms debt by state governments.**

State governments took over 75% of the debt of their discoms and issued **lower-interest bonds** to service the rest of the debt.

- In return, discoms were given target dates (2017-19) to **meet efficiency parameters**. Aggregate technical and commercial (AT&C) losses of discoms, are to be reduced.
- This has to be matched up by **timely tariff revisions and elimination of the gap between the average per-unit cost of supply (ACS) and average revenue realised (ARR) by 2019**.

The scheme resulted in some positives

- Out of the 28 states that implemented UDAY, 10 states have shown either reduced losses or profits in 2019.
- Instead of just focusing on distribution, UDAY focused on interventions in coal, generation and transmission sectors as well.

However, the indications are that the turnaround as envisaged by UDAY hasn't materialised, with several targets being missed:

- **Burgeoning AT&C Losses:** At the aggregate level, the **AT&C losses for major states stood at 19.05%** as against the **target of reducing them to 15% by the end of 2019**.
In the case of some states, especially in the northern and central parts of the country, the losses are of a much higher magnitude, suggesting that pilferage continues to be rampant.
- **High ACS-ARR Gap:** While the ACS-ARR gap was supposed to be eliminated by 2019, it remains as high as Rs 0.25 per unit.
In many states, the gap is even higher. This can be traced to inadequate tariff hikes.
- **Mixed Progress:** Operational efficiency targets under UDAY, such as the installation of feeder metering, smart metering and feeder segregation, are still not completely met.
For instance, not much progress has been made in the case of smart metering above 200 and up to 500 kwh and above 500 kwh.
- **Inadequate Power Subsidy:** Also, **the power subsidy released by state governments to discoms appears to be inadequate**.
As a result, discoms have reported financial losses to the tune of Rs 21,658 crore at the end of 2019, reversing the declining trend since the launch of UDAY.
- **Economic Roadblock:** Further, UDAY bonds were issued at a premium, due to this, the cost of debt servicing has gone up for the UDAY states.
 - The impact on state finances is likely to continue due to interest payment on UDAY bonds and redemption of these bonds.
 - This makes for a **grim prospect for most states combating a tight fiscal situation amid a continuing slowdown**.

Way Forward

- Government's announcement of the launch of **UDAY 2.0** which seeks installation of **smart prepaid metres, prompt payment by discoms, making coal available for short term and reviving gas-based plants** is a step in the right direction.
- There is an urgent need to address the issues of burgeoning outstanding dues of discoms towards power generators and stressed projects that are being dragged under insolvency proceedings.
- **Formulation of pragmatic power tariff policy** is the need of the hour because without a financially viable power sector and subsequently, socio-economic growth of India will suffer.

The Indian government has vowed to provide 24X7 power supply to every village and every house in India. The fulfilment of this dream will rest upon a sustainable power sector. Therefore, the government should proactively address the concerns of these power

distribution companies.

Drishti Mains Question

Ujwal DISCOM Assurance Yojana was designed to turn around the precarious financial position of state power distribution companies. However, there are still many underlying issues in it. Discuss.