Addressing Issues with UDAY

What is the issue?

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UDAY Scheme is facing various performance concerns, which needs to be addressed by innovative policy measures.

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What is the significance of UDAY?

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- Ujjwal DISCOM Assurance Yojana (UDAY) is the financial turnaround and revival package for electricity distribution companies of India (DISCOMs).
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- UDAY aims to find a permanent solution to the financial mess that the power distribution is in.
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- It allows state governments, which own the DISCOMs, to take over 75 percent of their debt as of September 30, 2015, and pay back lenders by selling bonds.
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- DISCOMs are expected to issue bonds for the remaining 25 percent of their debt.
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- UDAY focused on reducing the debt burden of SEBs under the scheme, bank debt at 13-14% was replaced by 8%-interest state government bonds.
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- While UDAY-II will focus on loss-reduction by using prepaid meters, special police stations to catch electricity thieves, etc.
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What are the concerns with performance of UDAY?

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- UDAY envisaged tariff hikes, these were to be kept to a minimum since the fulcrum around which UDAY worked was a sharp fall in ATC losses, to 15% by March 2019.
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- As it happens, the latest data, puts this at 22% and it is much higher in states like Bihar (38.9%), Uttar Pradesh (33.1%) and Jharkhand (36.9%).
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- It is not just the ATC losses where UDAY's failure can be seen, this is evident from the fact that SEBs are now delaying payments to suppliers.
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- SEB dues to generating companies rose from Rs 16,564 crore to Rs 26,500 crore; of this, Rs 17,761 crore is due to private sector firms.
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- There are 'regulatory dues', or increases in tariff due to new government levies such as a green cess or a port congestion surcharge.
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- Cash-strapped SEBs aren't signing long-term power purchase agreements (PPAs) with generators who, in turn, are not in a position to repay their bank loans as they have no steady revenue stream.
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What measures needs to be taken?

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- A long-term solution that forces SEBs to supply electricity to those who want it and pay their suppliers in time will prevent lakhs of crore of bank debt from turning into NPAs since power producers will repay their dues on time.
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- **Big penalties -** Big penalties needs to be levied on SEBs for non-supply of electricity, this will force them to sign PPAs.
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- When such high penalties are imposed and the cash balances of state governments are on the line, they will themselves petition their electricity regulators asking for tariff hikes and also work at reducing theft which has large political patronage.
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- **Agreements -** Agreement need to be signed whereby the dues owed by the SEBs are automatically deducted by RBI from the accounts of the state

governments and paid to electricity suppliers.
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- **Innovative Reforms -** Indeed, while setting up dedicated police stations for catching electricity thieves is a good idea, a better one would be to pay subsidies directly to farmers and others and sell electricity at market rates.
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- Once this is done, as in the case of LPG, the temptation to steal will automatically reduce.
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Source: Financial Express

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