

Bailout plan for State-run power distribution companies

Prelims: Current events of national and international importance | Economy

Why in news?

In a major move to revive India's struggling discoms, the government is considering multiple reform measures to improve their financial health.

• India is considering a bailout plan of exceeding *Rs. 1 trillion* (\$12 billion) to support these reforms and put discoms on a sustainable growth path.

Bailout – When a government or big organization gives money to a struggling company or industry to avoid failure. They can take the form of loans, cash infusions, and/or stock purchases.

- **Aim** To improve the *financial health* of the debt-laden state-run power distribution companies.
- Nodal Ministry Ministry of Power.

Key proposals

- Mandatory privatization States would be required to ensure that <u>at</u>
 <u>least 20%</u> of the State's total power consumption must be met by private
 companies.
- The states must assume part of the retailer's debt.
- Partial divestment to pay off existing debt -
 - Create a new distribution company, <u>divest 51% equity</u>, and gain access to long-term, interest-free loans and 5 years of low-interest federal loans.
 - *Privatize up to 26%* of an existing state-owned discom's equity in exchange for 5 years of low-interest federal funding.
- Listing in Stock Exchange Alternative to privatization, states that decide to retain their managerial control must list their utilities on a recognized stock exchange within 3 years to receive low-interest loans

for infrastructure management.

• Cost reflective tariffs - Recommends to make electricity tariffs more cost-reflective, aiming to reduce losses and ensure operational viability.

Cost-reflective means that the price charged for a service, like electricity, reflects its actual cost of production and supply.

- Elimination of banking for open access It currently allows power producers to store surplus energy for later use, help improve the efficiency & financial performance of key lenders like Rural Electrification Corporation (REC).
- **Present privatized distribution zones** Including Delhi, Maharashtra and Gujarat.

References

- 1. The Hindu | Bail-out plan for State power distributors
- 2. CNBCtv18 | Bail-out plan for State power distributors

