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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 ***at least 20%*** 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, ***divest 51% equity***, 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