Direct Benefit Transfer for Electricity

Why in news?

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Mandatory use of Direct Benefit Transfer (DBT) for all electricity subsidies has been proposed in the recent draft amendments to the Electricity Act and the National Tariff Policy.

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How does DBT help?

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- DBT is a method through which a subsidy will be directly transferred to the bank accounts of consumers.
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- DBT has reported success in subsidies for LPG and for wages under MNREGA.
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- It potentially helps to target subsidies, incentivise behaviour change and reduce wastage of public funds.
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- At present, the electricity subsidy is provided by the State government to the distribution company (Discom).
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- However, Rajasthan government announced DBT for providing Rs.10,000 as subsidy annually to each agricultural consumer.
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- Punjab and Gujarat are also using the mechanism in small-scale pilot projects.
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What are the precautions to be taken before implementing?

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- **Over-estimation** - About 90% of electricity subsidies accrue to agricultural

consumers and some sections of residential consumers.
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- However, most beneficiaries are unmetered and the subsidy is provided on assumed consumption norms, which are often overestimated.
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- e.g In UP the assumed monthly consumption for a rural home is 72 units, which is closer to the average consumption of homes in Mumbai and Hyderabad, typical urban areas.
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- Such overestimation implies that losses incurred by the Discom are taken as additional consumption by unmetered consumers, which State governments end up subsidising.
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- In such a case, DBT could never end overestimated consumption, as the benefits will somehow be transferred to consumers.
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- **Identification** - There are issues in identifying the subsidy recipient where the users of electricity are tenants, but the connection is in the name of the property owner.
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- There is a need for legal and regulatory steps to ensure that the subsidies are provided to electricity users rather than the owners.
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- Similar safeguards should be ensured for joint ownership and in cases of inheritance issues.
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- **Prior deposition** - Consumers might find it difficult to manage if the unsubsidised bill is to be paid prior to subsidy transfer.
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- Therefore, similar to DBT in LPG, some subsidy can be deposited initially into the bank accounts to enable first payment.
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- **Delay in payment** - Currently, subsidy payments are often delayed by State governments for prolonged periods to discoms.
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- Though unfair, at least DISCOMs were able operate. But same will not be the case when it comes to individual households.
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What should be done?

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- Section 65 of the Electricity Act can be amended to provide regulatory mandate for monitoring DBT implementation when adopted by the state.
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- Also, before universal DBT for electricity is applied, close attention needs to be paid to on-going pilots and more large-scale pilots.
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- Electricity Regulatory Commissions, Discoms and State Governments should allow different kinds of pilots with strong monitoring, evaluation and learning mechanisms, before signing on to universal adoption.
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- Further, there is a need for third-party audits authorised by regulatory commissions.
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Source: Business Line

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