Discom Loan Package

Why in news?

The Centre has announced Rs 90,000 crore loan package for discoms.

How this package is viewed?

- This package is being seen as a boon for the generation companies or gencos of the power sector.
- Improvement in their cash-flows will help their credit rating, and enable fresh funding.
- State government guarantees against the loans to the discoms will help PFC and REC to treat the loans as standard assets.
- However, that is no assurance against default in debt-servicing.

What had happened historically?

- Historically, in spite of delays, no lender has invoked a state government guarantee.
- Over the years, the Centre has formulated various schemes to help the ailing state power sector.
- In spite of these measures, there has been no real improvement in the functioning of the distribution companies, or discoms.

What is the pattern observed?

- Diversion of funds meant for capital expenditure to meet interest liability is rampant.
- This had resulted in further increase of liabilities with no creation of assets.
- Therefore, no significant investment has been seen in terms of strengthening sub-transmission and distribution, systems improvement, or separation of agriculture feeders.
- Virtually no power project in India has ever been completed without cost and time overruns.
- Many private players quoted unworkable tariffs in making successful bids for projects.

What can be observed from the 2015 UDAY scheme?

- This scheme aimed at financial turnaround, operational improvement, reduction in cost of generation, development of renewable energy, energy efficiency and conservation.
- State governments took over 75% of the debt of discoms and issued low-interest bonds.
- In return, discoms were given a deadline (2017-19) to meet efficiency parameters by 2019.
- The turnaround envisaged by UDAY hasn't materialised, with several targets missed.

What are the problems faced by players?

- Apart from the financials of the discoms, banks and financial institutions have contributed to the **stressed assets** of many power producers.
- Many naphtha/gas-based stations were built, but the **absence of gas supply** and import of costly naphtha added to their woes.
- Most of these plants are shut today.
- Many private power plants suffered as banks took time in approving revised project costs.
- With **no cash flow**, the natural fallout was defaults.
- As a result, many of the private projects face IBC proceedings or liquidation.
- The Appellate Tribunal for Electricity's (APTEL's) order mandated electricity regulatory commissions to initiate **suo-motu proceedings** for discoms tariff revision.
- But, no tangible action is visible.

What was the Finance Ministry's announcement?

- The Finanace Ministry's announcement regarding privatisation of discoms in the Union Territories is a welcome step.
- This should be adopted by states which are reform oriented.
- Private players, with successful experiences in distribution, can be retained on an agency basis on a profit-sharing model.
- Demonstrated improvements in Delhi by Tata Power and BSES show how investment in system strengthening can make a difference.

What is needed?

- There is a need to secure discoms' cash-flow and efficient collection.
- This can be achieved through the introduction of pre-paid metering (complemented by smart metering and remote reading).

- It can also be achieved through separation of agriculture feeders, metering and measurement of agriculture consumption.
- Benchmarks can be established for efficiency in operations.
- The MIS can be developed and data analytics can be used for continued improvement.
- Going forward, consider appointing professionals for managing the discoms and delegate operational authority to them.
- Only then can we expect to have directed investment for operational and financial improvements.

Source: Financial Express

SHANKAR IAS PARLIAMENT
Information is Empowering