Re-modeling our DISCOMs

What is the issue?

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- Disruptions in technology, regulations, and business models are forcing power distribution companies (DISCOMs) to take stock of their future.
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- DISCOMs need to get innovative and redesign their tariff structure and business model to tide over this impasse.
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What are the problems in plaguing the Indian DISCOMs?

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- Indian DISCOMs are financially strained - at the end of FY16, total outstanding debt was Rs 4,146 billion and annual losses were Rs 657 billion.
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- There are significant challenges in the sector that demonstrate how short-term measures will not suffice to hold off the long-term collapse.
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- **Purchase agreements -** 75-80% of a DISCOM's costs are in power purchase and many are locked into expensive agreements (PPAs) for decades.
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- Improper planning, and technical constraints in operating the grid, has been costing as much as Rs 200 billion annually.
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- **Cross Subsidisation -** DISCOMs charge "commercial and industrial (C&I) consumers" very high tariffs.
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- This is to compensate for subsidies provided to residential and agricultural consumers, for whom tariffs are kept artificially low for political reasons.
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- High tariffs combined with unreliable supply have rendered Indian industry uncompetitive in global markets.
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- To counter this, industries were forced to build capacity for captive

electricity generation – which accounted for as much as 17% of all DISCOM sales in Fy17.
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- Notably, C&I consumers currently have new options for distributed generation of renewable energy - like installing solar systems in their premises.
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- Hence, by charging exorbitant tariffs and providing unreliable power supply, DISCOMs will eventually drive away their best paying consumers.
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- **Government Initiatives -** "Power for All, Make in India, and speedy deployment of renewable energy" are further complicating the sector's woes.
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- There is a need for DISCOMs to rethink their business models and reorient towards a more sustainable future.
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What is the way ahead?

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- **C&I Consumers -** Make in India, as conceived, has a focus on high value-add sectors such as electronics and ICT, aerospace, and defence manufacturing.
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- Additionally, a vast majority of the MSMEs (which are mass employers) too are dependent on electricity for their production processes.
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- Considering India's growth rate, there is hence a need for higher electricity-intensity and improved reliability for units.
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- A rationalised tariff structure would help to retain existing consumers and draw in new market entrants for DISCOMs.
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- **Power for All -** This is dependent on many factors that range from engineering and execution challenges like:
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- Electrifying 3.3 million household per month.
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- Ensuring that reliable and regular power is supplied

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- Metering and billing the consumption effectively.
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- For DISCOMs, addition of these new consumers will saddled with more financial burden due to the subsidies that they'll have to be provided.
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- Agricultural and residential consumers together account for 50% of the sales volume but only 30% of the revenue.
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- But there are indications that a considerable chunk of the rural masses are willing to pay higher for unintrupted and quality power supply.
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- To cater to this aspiring group of consumers, DISCOMs have to reduce power procurement costs and upgrade their infrastructure.
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- **Renewables -** New renewable energy projects offer hopes for reducing costs and increasing revenue for DISCOMs.
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- Renewable energy is also important for India's battle against climate change, and the full potential of this domain needs to be exploited.
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- Private roof-top installations have started producing significant amounts of power lately, but DISCOMs are largely seeing this trend negatively.
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- DISCOMs see individual generators are predating their revenues, which needs to change by co-opting them with a more positive approach.
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- Notably, these private generators produce and consume at the same time and are charged based on a two-way metering which indicats net power intake.
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Source: Business Stanadard

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