Reforming Discoms

What is the issue?

- There is a steep fall in electricity demand with the onset of Covid-19.
- This has pushed power distribution companies, already in dire financial straits due to a tangle of structural factors, into a deeper mess.

What is the distress?

- Discoms' dues of over ₹1 lakh crore to power generators cannot be paid off in a hurry, unless their finances are knocked into a semblance of order.
- Realising that the country cannot afford a sputtering power sector, the Centre announced a relaxation in credit limits for discoms.

What is the announcement?

- Power Finance Corporation and Rural Electrification Corporation will extend **loans to discoms** to meet liabilities towards gencos.
- These loans will be given on a one-time basis, which will be over and above the working capital loan limit of 25% of last year’s revenues.
- The contours of a rescue plan were drawn up in May, when the Finance Ministry announced a ₹90,000 crore liquidity package for discoms.
- However, the credit infusion should be accompanied by structural reforms.

What are the troubles of discoms?

- The financial troubles of discoms can be traced to the,
    1. High cost of power purchased by them,
    2. Erosion of their customer base with the rise in open access and captive power generation, and their operational inefficiencies.
- Thermal power costs have risen on account of poor fuel supply linkages and transportation costs from the mines to plants.
- Rapid capacity additions over the last decade, outpacing demand in recent years, contributed to lower capacity utilisation.
- This, in turn, has contributed to the transfer of higher per unit fixed costs to discoms.
- Improvement in battery storage technologies is a game-changer.
- With bulk users opting for open access and captive generation, the discoms’ skewed cross-subsidisation model has come under stress.

What would the discoms do?

- Discoms should **refrain** from entering into **long-term contracts**, given the rapid technological advancements in renewable.
- This is because the prices of the renewable are more than competitive vis-a-vis coal-fired power.
- Discoms will feel the pressure to trim technical and commercial losses.
- Agriculture losses can be curtailed by shifting to grid-based solar power.
- As for their universal service obligation to provide cheap power, **direct benefit transfers** will help deal with liquidity issues.
- **Tariffs** should be recalibrated to encourage use during lean hours.
- While discoms should not play foul by resisting consumers' shift to open access, they should be allowed to charge more from consumers who shuttle between options.
- Even as cross-subsidy becomes unviable, tariff rationalisation should help them improve their finances and provide quality power to all.

Source: Business Line

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