Troubling Power sector

What is the issue?

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The power sector is stuck in a vicious cycle and hence the revival must start with restoring the financial health of the Discoms.

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What is the vicious circle surrounding the power sector?

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- The pricing of power leaves Discoms in India with a peculiar dilemma, wherein the more they sell, the more they lose.
- Poor financial condition of the Discoms made them to demand less power from the power generating companies(Gencos) in the form of Power purchase agreements.
- This in turn is impacting on the financial stability of power generating companies.
- The poor financial condition of the Discoms has resulted in mounting dues of more than Rs. 36,000 crores that they have to pay to Gencos.
- As Gencos are not getting their dues from Discoms they are unable to pay regularly to Coal India where the dues have gone beyond Rs. 10,000 crores.
- The banking industry too is saddled with the additional problem of potential NPAs on account of non-performing Gencos.
- Thus there is a vicious circle that has afflicted the energy sector and if the issues are not addressed expeditiously, there could be a serious crisis at hand that can impact the entire economy.

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Has UDAY scheme addressed these concerns?

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- UDAY provides for the financial turnaround and revival of Power Distribution companies (DISCOMs), wherein states were to take over 75% of Discom debts as on September 30, 2015.
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- This was to provide fiscal space to the Discoms and “improve” their balance sheets.
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- However, Most of the Discoms failed to carry out mandates which includes critical activities like reduction of AT&C losses, elimination of Average Revenue Realized (ARR) & Average Cost of Supply (ACS) gap, feeder metering, price rationalisation etc.
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- AT&C loss is the difference between energy input units into the system and the units for which the payment is collected.
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- Out of all UDAY States, 13 have actually reported higher Aggregate Technical & Commercial(AT&C) losses as compared to previous year.
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- Also, the 2018 Economic Survey revealed that due to these bonds, the States’ Gross Fiscal Deficit to GDP Ratio got increased by 0.7%.
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- Thus the fundamental issues remain unaddressed and most of the Discoms continue to be in trouble.
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- On account of such poor financial condition of Discoms, no new power purchase agreements(PPAs) are being floated even though there is demand for power.
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What are the measures needed?

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- Improving the financial health of Discoms should start with resolving issues like separate feeder lines, auditing, strong action against defaulters and irrational pricing mechanisms.
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- Other states can learn from the successful models, such as in Gujarat, and make out their own plan through intensive discussions with all the stake holders.

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- Coal production will need to be ramped up substantially and the Coal Project Monitoring Group will need to be activated to facilitate faster clearances.
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- A high-level empowered committee needs to be set up to examine each stressed projects, empowered to settle disputes and work out a rehabilitation package.
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- Finally, the governmental push for the renewable energy sector should not burden the power generating companies with the rising cross-subsidisation of electricity.
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- Cross subsidization is the practice of charging higher prices to one group of consumers to subsidize lower prices for another group.
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- Promoting renewable energy is laudable, but this has to be borne by the society (through taxation) and not by the entities that are already in trouble.
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Source: Business Line

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