UDAY – The DISCOM Crisis

What is the issue?

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Almost a year and a half after it was implemented, the objectives with which UDAY scheme commenced seems to be slipping away.

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What is UDAY scheme?

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- Ujwal DISCOM Assurance Yojana (UDAY) is an initiative of the union ministry of power.
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- It was to serve as a financial turnaround and revival package for electricity distribution companies of India (DISCOMs).
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What are the issue with UDAY?.

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- **Big Targets -** The discoms, may be up against a wall, given the steep loss-reduction target set under the UDAY which aims to improve their financial health.
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- A rough estimate suggests that even one per cent by states that signed up for UDAY will lead to Rs 24,000 crore of cash losses unless offset by bigger tariff hikes and cost reduction measures.
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- **Tariff Revision -** Though regulations require tariff revision for any financial year to be made before April, as of June 2017, 12 states haven’t done their tariff revisions for fiscal 2018.
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- Even for those that have revised, the revision falls short of the estimates

made under UDAY.
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- **Reasons for Slippage** - It appears that the regulators were not aligned with the overall UDAY package, which has an in-built requirement of tariff increase to meet AT&C losses during the three-year window.
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- Further, tariffs remain a politically sensitive issue, with Rajasthan had to roll back tariff increase for agricultural consumers by almost 25 paise leading to an additional burden of Rs 500 crore.
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- **The sustainability -** With so many states missing the target in just the second year, there are doubts over whether discoms can tap this opportunity provided by the central government.
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- Also, it is imperative to design a strategy to deal with failures to meet targets, especially considering that discoms cannot raise working capital loans.
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What can be done?

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- **Private Partnership -** Discoms should seek active support of private players through distribution franchise or other public-private partnership options, especially in the notoriously high AT&C loss areas.
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- **Central Operational Assistance -** They should take the help of central government entities for bringing in best management and operational practices.
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- The draft energy policy issued recently by the NITI Aayog, too, mentions this.
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- **Automated Tariff Revision -** Tariffs should be increased automatically for at least three years, based on inflation or the percentage specified in the UDAY agreement, with no scope for regulatory or political interference.
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- This tariff mechanism could be made subject to regulatory scrutiny after the end of the three-year “control period”.
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- **DBT -** To plug leakages, states should explore ‘Direct Benefits Transfer’ in this sector along with retail and supply segregation to infuse competition for

the benefit of consumers.
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Source: Business Standard

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