Privatisation of Power DISCOMs

For Prelims: **Supreme Court**, **High Court's** , **Power Distribution Companies (DISCOMs)**, **Aggregate Technical and Commercial (AT&C) losses**, **UDAY scheme**, **Integrated Power Development Scheme (IPDS)**.

For Mains: Significance of Reforming Power Distribution Companies (DISCOMs) for Fiscal Prudence.

Source: FE

Why in News?

In December 2024, the **Supreme Court** upheld the **Punjab and Haryana High Court's** decision, supporting the government's intent to privatize the **power distribution companies (DISCOMs)**, in Chandigarh.

What is the Need for Privatisation of Power DISCOMs?

- **High AT&C Losses**: Despite improvements, India's **Aggregate technical and commercial (AT&C) losses** remain high at **17.6% in FY24**, showing persistent issues of electricity theft and unbilled supply.
  - These losses undermine the financial health of DISCOMs and limit their ability to invest in infrastructure.
- **Systemic Inefficiencies**: **Billing efficiency** at **87%** and **collection efficiency** at **97.3%** reflect persistent operational inefficiencies.
  - These gaps reduce **revenue generation**, aggravating the financial strain on DISCOMs.
- **Escalating Financial Strain:** The **average cost of supply (ACS)** and the **average realizable revenue (ARR)** gap widened to from 33 paise per unit in FY22 to **55 paise per unit** in FY23.
  - This gap exacerbates their debt, making them reliant on state subsidies.
- **Subsidy Burden on States**: The financial deficit in India's power distribution sector widened to at least **Rs 79,000 crore** in FY23 from **Rs. 44,000 crores** in FY22.
  - This dependency reflects **unsustainable financial management** in the power sector.
- **Rising Power Demand and Costs**: A sharp **8% rise in power demand** in FY23, coupled with dependence on **costly coal imports** and high exchange prices, pushed the **average power purchase** cost up by **71 paise/kWh**.
  - Without structural changes, these rising costs may lead to further financial instability for public-sector DISCOMs.
- **Demonstrated Success in Private Models**: In **Delhi**, privatisation led to a dramatic reduction in AT&C losses from over **50% in 2002 to single-digit levels**, demonstrating the potential for operational turnaround.
  - Due to privatization, the Delhi government saved approximately **Rs. 1,200 crores annually**, which was previously spent on the **Delhi Vidyut Board**.
- **Ineffectiveness of Current Public-Sector Reforms**: Government initiatives like the **UDAY**

scheme have shown limited success in curbing losses or improving operational efficiency.
    - Private-sector involvement is seen as necessary to introduce **professional management**, **modern technologies, and accountability**.

What are Challenges of Privatisation of DISCOMs?

- **Employee Resistance to Privatisation**: Employees of public-sector DISCOMs often oppose privatisation, fearing **job losses, adverse service conditions, and retrenchment**.
    - Experiences like **Delhi's** voluntary retirement scheme highlights employee concerns over job security and finances.
- **Complex Legal and Regulatory Environment**: Challenges arise from complying with the **Electricity Act, 2003,** uncertainty over full privatization, and unclear reform options.
    - For example, in **Chandigarh**, **legal challenges** raised concerns about whether the private bidder met all statutory requirements, delaying the process.
- **Tariff Concerns for Consumers**: **Post-privatisation**, **tariff increases** are often necessary to cover operational costs and infrastructure investments, raising fears of consumer backlash.
    - Balancing the need for cost recovery with **affordability** is a critical challenge for regulators and private players.
- **Lack of Transitional Support**: Odisha's privatisation failure in the 1990s is an example where the absence of adequate **financial and operational transitional support** led to poor outcomes.
    - Unlike Odisha, Delhi's success was bolstered by transitional funds of **Rs. 3,450 crores**, which helped DISCOMs manage initial operational hurdles.

What are Government Steps to Support State DISCOMs?

- **Schemes:**
    - **Ujwal DISCOM Assurance Yojana (UDAY):** Launched in 2015 to rescue financially strained DISCOMs, UDAY reduced their debt by allowing states to take over **75% of liabilities** as low-interest bonds.
        - It targeted improved **AT&C losses** and **billing efficiency** through measures like **smart metering** and **theft reduction**.
    - **Revamped Distribution Sector Scheme (RDSS)**: Introduced with a budget of **Rs. 3,03,758 crore** for a 5-year period (**FY 2021-22 to FY 2025-26**).
        - The scheme aims to reduce **AT&C losses** to **12-15%** nationwide and eliminate the gap between **ACS** and **ARR** by **2024-25**.
    - **Integrated Power Development Scheme (IPDS):** Launched to strengthen the urban power distribution infrastructure, IPDS focuses on improving **reliability**, **reducing technical losses**, and ensuring better customer service in urban areas.
- **Other Measures:**
    - **Integrated Ratings**: The **Integrated Rating of DISCOMs**, conducted annually, evaluates operational and financial parameters, helping to identify inefficiencies and encourage accountability.
        - The **12th Edition of the Integrated Rating of Discoms** highlighted improvements like reduced AT&C losses and better payment cycles.

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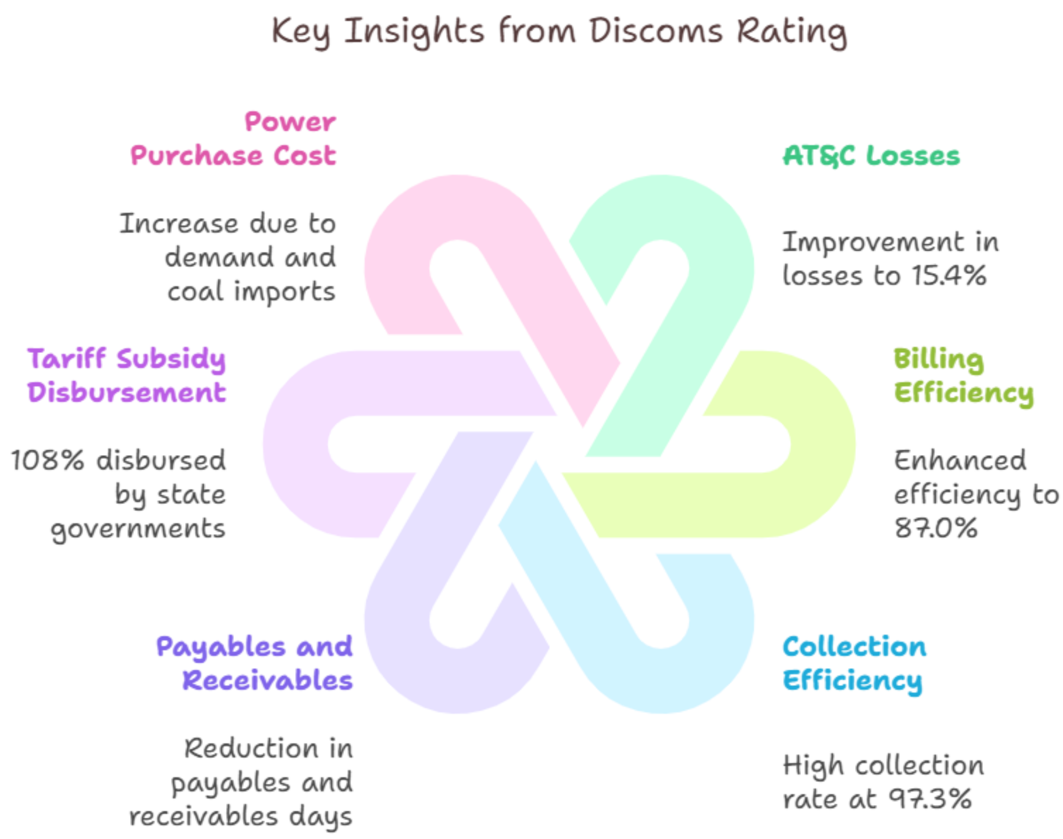

- **Financial Assistance and Subsidies**: During FY23, state governments disbursed **108% of tariff subsidies booked**, ensuring that **DISCOMs** could maintain operations despite losses.
  - In cases like Delhi, transitional funding of **Rs. 3,450 crores** was instrumental in stabilizing operations post-privatisation.
- **Regulatory Reforms**: **Late Payment Surcharge Rules** have significantly reduced days payable to **126 days** and days receivable to **119 days**, easing liquidity pressures on **DISCOMs**.
  - These rules incentivize timely payments to generation and transmission companies.
- **Privatisation in Union Territories (UTs)**: The central government initiated privatisation of UT DISCOMs, with **Dadra and Nagar Haveli** and **Daman and Diu** being the first success stories in 2022.
  - Progress in **Chandigarh and Puducherry** demonstrates ongoing efforts, despite resistance and litigation.

Way Forward

- **Collaborative Stakeholder Engagement**: Governments must engage employees, consumers, and political groups to address concerns and build consensus, ensuring a smooth transition.
  - Clear communication about safeguards, such as pension liability sharing, can reduce resistance.
- **Focus on Regulatory Strengthening**: State electricity regulatory commissions must be empowered to enforce transparent tariff determination, incentivize efficiency, and protect consumer interests.
- **Gradual Tariff Rationalisation**: Tariff adjustments should be phased and coupled with subsidies for vulnerable consumers to maintain affordability while ensuring cost recovery.
- **Emphasis on Infrastructure Upgradation**: Modernizing grids, introducing smart metering, and leveraging technology must be prioritized to improve service delivery and reduce losses.
- **Encouraging Retail Competition in Phases**: While full privatisation is effective, exploring retail competition in a phased manner can offer consumers choice and improve service quality over

time.

- **Learning from Best Practices**: Applying best practices based on learnings from both **successful (Delhi) and unsuccessful (Odisha)** models can help design effective policies and frameworks for privatisation.

Drishti Mains Question:

What are the key needs and challenges driving DISCOM privatization in India, and how can systemic reforms address them?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims:

Q. Which one of the following is the purpose of ‘UDAY’, a scheme of the Government? (2016)

(a) Providing technical and financial assistance to start-up entrepreneurs in the field of renewable sources of energy

(b) Providing electricity to every household in the country by 2018

(c) Replacing the coal-based power plants with natural gas, nuclear, solar, wind and tidal power plants over a period of time

(d) Providing for financial turnaround and revival of power distribution