MESSAGE

In this backdrop, the PHDCCI is organising a DISCOM Conclave on June 24, 2022. The Conclave will deliberate on the initiatives by DISCOMs for providing clean power to industry as also significance of smart meters, smart grids, digitalization & disruptive technologies for DISCOMs.

"I hope this Conclave will be a successful one and will be able to bring policy makers from the Centre, states, PSUs and the entrepreneurs on one platform for deliberation on the way forward and what more reforms are required to create a robust distribution framework that will benefit all the stakeholders."

Jai Hind !!

Mr. Salil Gupta

Chair – Power, RE, AE Committee

PHD Chamber of Commerce and Industry

Mr. Sabyasachi Majumdar
Senior Vice President &
Group Head - Corporate Ratings
ICRA Limited

MESSAGE

"State-owned distribution utilities (discoms) continue to be in fragile financial health, due to the high level of aggregate technical and commercial (AT&C) losses, inadequate tariffs in relation to the cost of power supply, insufficient / delays in subsidy support from state governments and delays in receiving payments from the state government bodies. Their overall debt burden, despite the implementation of the UDAY scheme, is estimated to have increased to around Rs 6 lakh crore in FY2022. Considering the highly subsidised nature of power tariffs towards agriculture and certain sections of residential consumers, the overall subsidy dependence is estimated to remain high at about Rs 1.48 lakh crore this year at all India level. As a result, the discoms in key states continue to report losses, leading to delays in payments to power generating companies and impacting quality of supply to consumers.

A major area of concern affecting discom finances is the significant delay in the process of tariff determination in many states. The tariff-determination process for discoms for FY2023 remains sluggish, with tariff petitions for FY2023 being filed by 24 out of 29 states and tariff orders being issued only for 18 states. While the median tariff hike is higher in FY2023 compared to the past two years, this is likely to remain inadequate considering the expected increase in the power purchase cost (PPC) for the discoms in FY2023 amid the rising dependency on costlier imported coal owing to the tight domestic coal supply position and elevated international coal prices.

In its budget 2021-22, the Union Government had announced the launch of a "reforms-based and results-linked" scheme for the distribution sector with the objective of improving the financial health and operational efficiency of discoms by reducing the AT&C losses. Subsequently, the Revamped Distribution Sector Scheme was notified in July with an overall outlay of Rs 3.03 lakh crore. This is inclusive of a budgetary grant/support of Rs 97,631 crore, spread over a five-year period."

MESSAGE

"Under the scheme, AT&C losses are sought to be brought down to 12-15% by 2025-26, through smart metering and upgradation of the distribution infrastructure, including the segregation of agriculture feeders. As of April 2022, the Government of India has approved proposals of 13 states under this scheme with a financial outlay of ~Rs. 1.62 trillion. The timely implementation of the projects under the scheme including the smart metering programme remains key to improving the discom efficiencies.

On the whole, focus on improving operational efficiency, timely issuance of tariff orders with adequate tariff revisions and timely subsidy payouts are necessary to ensure financial sustainability of discoms. However, a strong political will and support from state governments is needed to achieve this objective."

Mr. Sabyasachi Majumdar

Senior Vice President & Group Head - Corporate Ratings

ICRA Limited

Executive Summary

Financial position of the state distribution utilities (discoms) continues to remain modest

Operating inefficiencies, delays in issuance of tariff orders along with inadequate tariff revisions and high subsidy dependence are key challenges

Effective implementation of capex initiatives including smart metering programme, remain key to improving the financial performance of the discoms

- The financial position of the state distribution utilities (discoms) continues to remain modest amid the weak operating efficiencies reflected from high level of distribution losses, delays in issuance of tariff orders, inadequate tariff hikes and delays in receiving payments from state government & Government bodies. As a result, the discoms in key states continue to report losses, leading to delays in payments to power generating companies and impacting quality of supply to consumers.
- The tariff-determination process for state discoms remains sluggish, with tariff petitions for FY2023 being filed by 24 out of 29 states and tariff orders being issued only for 18 states. The median tariff hike approved for FY2023 is higher at 2.2% compared to 0.6% for FY2022. However, it remains modest and lower than the median tariff hike of 8.2% sought by the discoms.
- The power purchase cost of state discoms for FY2023 is likely to remain higher than approved in the tariff orders, driven by increased dependency on costlier imported coal. This may increase the cost of supply for discoms by 4.5% - 5.0% in FY2023 at an all-India level.
- The gross debt for state-owned discoms has increased to Rs. 5.5 trillion as of March 2021 and is estimated to have increased to Rs 6 trillion in FY2022, with the loans drawn down from PFC and REC under the liquidity package. This apart, the dues to power generators remain high at Rs. 1.28 trillion as of May 2022. Such high level of debt is unsustainable for the discoms.
- Given the target to increase the share of renewables (RE) to 50% in the power generation mix by 2030, measures for effective RE integration are necessary, These include augmenting grid infrastructure, storage capabilities to manage the intermittency and flexibility in operations of thermal power projects.
- Effective implementation of the capex initiatives like smart meters remains important to improve the operating efficiencies of the discoms. This along with timely issuance of tariff orders, solarisation of agri-feeders & DBT for subsidy would enable the discoms to improve their financials. A strong political will is required on the part of the state governments to implement these reforms.