How political parties sidestep the sordid story of India's electricity distribution sector

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Synopsis

Ddiscoms are heavily saddled with debt and depend on govt infusions just to repay dues to generators, never mind investing in tech or enhancing customer service. Transmission & distribution losses at 20-22% remain above the global standard even as they are reducing over the past few years. Power theft is an all-too-common problem in most states.

Reuters
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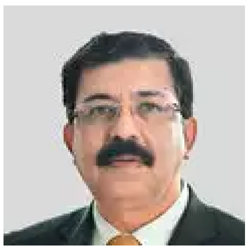

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Regardless of which parties win and lose today, political parties of all hues are united on one front: promising free power to customers if they come to power in the five states. In Uttar Pradesh, for instance, promises range from the assurance of 300 free units of electricity, apart from free power for irrigation and a 50% reduction in farmers' electricity bills for running tubewells, which according to estimates would benefit 13 lakh consumers. Every family in Goa has been promised free electricity up to 300 units a month. In Punjab, consumers having connections up to 2 kW load have been promised a waiver of pending electricity bills. All these poll promises sidestep the sordid story that is India's electricity distribution sector.

Distribution companies (discoms) are heavily saddled with debt and depend on government infusions just to repay dues to generators, never mind investing in technologies or enhancing customer service. Transmission and distribution losses at 20-22% remain above the global standard even as they are reducing over the past few years. Power theft is an all-too-common problem in most states.

In Delhi, nearly 85% of consumers benefit from power subsidies. The poll promise of free electricity in UP, coupled with existing subsidies, shall burden the exchequer by ₹32,000 crore. Similar waivers in Punjab will create a burden of ₹1,200 crore.

While promises are made for free power across states, the timely disbursal of subsidies to discoms is a perennial problem that impacts their cash flow and hampers their overall ability to improve their infrastructure. The burden is also passed on as cross-subsidies to industrial and commercial consumers who are forced to become uncompetitive in a global scenario by bearing the brunt of this subsidy spree.

'Consume more to pay less' is the reality in most developed countries. In India, however, tariff principles are devoid of any financial and logical reasoning to support the political agenda of parties that come to power. By providing free power to those sections of the population that can afford to pay the full price, we have made the larger financial challenge endemic to discoms and, thereby, the entire power sector.

Even for farmers, the selection methodology isn't entirely rational. Today, the subsidies are being provided irrespective of whether farmers have access to canal water or need to pump water. This agro freebie also leads to inaccurate reporting of aggregate technical and commercial (AT&C) losses as such connections are usually unmetered. Considering the agricultural load, the total consumption is calculated on an ad-hoc basis. India hasn't segregated agricultural feeders for decades to meter them appropriately.

The domino effect leads discoms to borrow more from banks and other financial institutions to manage their liquidity challenges. This financial cost is ultimately passed on to consumers in the form of carrying costs. Under the current circumstances, better subsidy structuring and deployment is critical to assisting the government in generating more revenue and spare funds that can be directed towards the development of critical infrastructures such as better roads, hospitals and educational institutions.

Certain segments of society do require subsidies to support their primary means of subsistence. Thus, it is critical to ensure that subsidy amounts are directed to only these sections so that electricity tariffs remain at a level that doesn't place a significant burden on the exchequer. Using technologies and data analytics, it's easy to target subsidies.

State governments should ensure discoms become efficient so that the total subsidy outgo remains within controllable limits. With increasing infusion of renewable energy at a relatively lower cost to meet future demand, and additional revenue gains due to reduction in losses, there is no reason for tariff hikes in the future. The Electricity (Amendment) Bill awaiting parliamentary nod is an attempt to address this issue.

States must go ahead with privatisation of part of the discoms to create competitiveness for better performance. Their need to support discoms financially will diminish significantly. Since Delhi's discom entered a public-private partnership (PPP) in 2002, AT&C losses have dropped from 50% to single digit today. The potential losses avoided are to the tune of ₹2,700 crore annually and cover nearly 90% of the ₹3,000 crore annual subsidy bill.

Similarly, other initiatives like monetising transmission assets and bringing in investors through tariff-based competitive bidding in intra-state transmission projects will help reduce transmission tariffs and the overall subsidy amount, which must be disbursed.

GoI has initiated various reforms and issued policy guidelines to bring transformation in the ailing distribution sector. State governments and political parties should join GoI's pathway of strengthening the financial prowess of discoms by rising above their short-term gains. For starters, they should stop promising free power before polls.
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