

# POWER UNDER PRESSURE

Relevant for: Indian Economy | Topic: Infrastructure: Energy incl. Renewable & Non-renewable

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Launched in November 2015, the Ujwal DISCOM Assurance Yojana (UDAY) was designed to turn around the precarious financial position of state distribution companies. Broadly, the scheme had three critical components. Takeover of discom debt by state governments, reduction in aggregate technical and commercial (AT&C) losses, timely tariff revisions and elimination of the gap between the average per unit cost of supply (ACS) and average revenue realised (ARR) by FY19. But as the NDA government ends its term, indications are that the turnaround hasn't materialised, with several targets being missed.

First, at the aggregate level, the AT&C losses for major states stood at 19.05 per cent as against the target of reducing them to 15 per cent by the end of FY19. In the case of some states, especially in the northern and central parts of the country, the losses are of a much higher magnitude, suggesting that pilferage continues to be rampant. Second, while the ACS-ARR gap was supposed to be eliminated by FY19, it remains as high as Rs 0.25 per unit. In many states, the gap is even higher. Part of the problem can be traced to inadequate tariff hikes. While it is true that some states have aggressively raised tariffs, the median hike remains muted. This is where political compulsions overtake commercial decisions. Then there's also the issue of whether the power subsidy released by state governments is adequate. As a result, discoms have reported financial losses to the tune of Rs 21,658 crore at the end of FY19, reversing the declining trend since the launch of UDAY, say reports. This deterioration in the financial position of discoms does not bode well for the entire power sector chain. Reports suggest that dues by state discoms to power generators have in fact risen. And though the recent CERC order on tariff relief for independent power producers is positive for producers, it runs the risk of timely realisation, as the financial position of discoms continues to be precarious.

Apart from these, there are several other operational efficiency targets under UDAY, such as feeder metering, smart metering and feeder segregation. Progress on these is mixed. For instance, not much progress has been made in the case of smart metering above 200 and upto 500 kwh and above 500 kwh. These issues need to be addressed quickly or else discom losses will rise further to levels where talks of another bailout are likely to surface. The only difference being that, this time around, state governments have little fiscal space to offer support.

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