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ECONOMIC STIMULUS: 90,000 CRORE LIQUIDITY INJECTION FOR FUND-STARVED DISCOMS

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

NEW DELHI: As part of its strategy to bring India's battered economy back on track, India will provide 90,000 crore liquidity injection for the fund-starved electricity distribution companies (discoms).

This was announced by finance minister Nirmala Sitharaman as one of the 15 measures in the first tranche to combat the economic disruption from the coronavirus lockdown, that has worsened the already precarious finances of power discoms.

"Discoms today are facing unprecedented cash flow problems," Sitharaman said.

This 90,000 crore will help in clearing the outstanding dues of discoms by state owned financial institutions. Mint reported about the proposed power sector package earlier.

The liquidity injection for the discoms will work like this. State-owned Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) will infuse the liquidity by raising an amount of about 90,000 crore from the market against the receivables of discoms. The state governments will provide a guarantee.

"We want the benefit passed to the customers…we are making it clear that these benefits should pass to the end consumers," she said.

This one-time time liquidity infusion will be used to pay the central public sector power generation companies, transmission companies, independent power producers and renewable energy generators.

State-owned PFC and REC have $80 billion by assets and are the largest lenders to the power sector. The idea is to clear the payment backlog with the concessional loans guaranteed by the respective state governments.

Energy consumption, especially electricity and refinery products, is usually linked to overall demand in the economy.

With at least 10 states losing about a third of the power supplied to their consumers in distribution losses, their overdues have not only hit power producers, but have also contributed to stress in the banking sector.

These loans would be disbursed in two tranches and will be linked to certain reforms such as increasing digital payment interfaces; prepaid metering in government departments and making action plans for loss reduction among others.

Sitharman spoke about the JAM trinity solution—Jan Dhan Yojana, Aadhaar and mobile numbers—as a game-changing reform for better targeting of subsidies.

The National Democratic Alliance (NDA) government has readied a raft of power sector reforms, including implementing the direct benefit transfer (DBT) scheme in the electricity sector for better targeting of subsidies, promoting retail competition and introducing financial discipline.

According to the draft Electricity Act (Amendment) Bill 2020 to the Electricity Act, 2003, the government has pitched for a cost reflective tariff and setting up an Electricity Contract Enforcement Authority to enforce power purchase agreements (PPAs).

The other measures in the works include allowing a one time relaxation in working capital borrowing limits imposed under Ujwal DISCOM Assurance Yojana (UDAY), targeted at turning around debt-ridden state power distribution companies. The discoms will be allowed working capital borrowings from banks and financial Institutions that may be upto 25% of the last year's revenues to clear their dues to conventional and renewable power generation and transmission firms.

The electricity demand load shifted to homes during the lockdown, resulting in lower realizations. With peak electricity demand coming down, commercial and industrial power demand has taken a hit after many factories shut down.

Domestic electricity connections account for around a quarter of India's power demand and contribute towards a bulk of India's average aggregate technical and commercial (AT&C) losses of 21.4%. Also, the gap between the cost of electricity bought (average cost of supply) and supplied (average revenue realized) for discoms is still substantial in most states and ranges from Rs2.13 per unit in Andhra Pradesh to Rs0.09 in Chhattisgarh.

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