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An analysis of the Revamped Distribution Sector Scheme

Authors: Puja Priyadarshini, Partner and Sagnik Maitra, Associate

On July 20, 2021, the Ministry of Power (**MoP**) approved a reforms-based and results-linked Revamped Distribution Sector Scheme (**the Scheme**) to improve the quality and reliability of supply of power to consumers. The Scheme is earmarked to have a total outlay of INR 3,03,758 crore, with the government pledging a budgetary support of INR 97,631 crore and aims to enhance the operational efficiency and financial health of all government owned Power Distribution Companies (**DISCOMs**) by FY 2025-26. REC Ltd and Power Finance Corp Ltd would serve as the Nodal Agencies for the implementation and operationalization of the Scheme.

Background

The Indian power sector has undergone an evolution since the time of independence when the country's installed capacity was only 1.3 GW[1]. Back then, access to electricity was only confined to large metropolitan and industrial areas. However, through the concerted efforts of the government in association with private players, the sector has grown to an installed capacity of 386 GW as of August 31, 2021. Despite the country's stellar success in the electrification of nearly 97% of all households[2], the quality of power supplied remains dismal. This is primarily because the financial health of the DISCOMs has steadily worsened despite periodic bailouts. As of FY 2021, DISCOM losses stood at whopping INR 90,000 crore[3] and, consequently, the DISCOMs have been failing to make timely payments to power generators, with over INR 67,9174 crore worth of payments still pending as of March 2021. These crippling losses prevent the DISCOMs from supplying continuous high-quality power to consumers, enhancing the infrastructure or fully committing to the shift from non-renewable to renewable sources of power[5].

The present Scheme was conceptualized to alleviate these concerns. Broad objectives of the Scheme are:

- Strengthening institutional capabilities for modernization of DISCOMs
- Lowering of AT&C losses to 12-15% by 2024-25 nationally
- Lowering of the ACS-ARR gap to zero by 2024-25

The Scheme comprises of two parts – **Part A** tackles the issue of financial aid to DISCOMs and **Part B** lays down provisions to augment the technical skills of professionals.

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[1] MOP, Central Electricity Authority of India Report dated October 2020 titled 'Growth of Electricity Sector in India from 1947-2020' available at https://cea.nic.in/wp-content/uploads/pdm/2020/12/growth_2020.pdf

[2] International Electricity Agency report titled 'Energy Access Outlook 2017' available at https://bit.ly/3BW99zW

[3] ICRA, March 2021. Distribution sector reforms imminent with rising DISCOMs debt and dues to GENCOs. Retrieved from www.icraresearch.in/research/ViewResearchReport/3567

[4] MOP, PFC Consulting. (2020). Payment Ratification and Analysis in Power Procurement for Bringing Transparency in Invoicing of Generators (PRAAPTI). Retrieved from www.praapti.in/

[5] NITI Ayog Report titled 'Turning Around the Power Distribution Sector: Learnings and Best Practices from Reforms' available at https://www.niti.gov.in/sites/default/files/2021-08/Electricity-Distribution-Report_030821.pdf

Part A – Financial aid and smart metering systems

This part envisions a mechanism for providing conditional financial assistance for upgradation of DISCOM infrastructure and the installation of smart metering systems. Some of the salient aspects are:

- **Conditional financial assistance**: A DISCOM eligible for financial bailout would be required to draw an action plan to strengthen its distribution system, improve operational efficiency and reliability of supplied power. Pre-conditions for qualification for the Scheme are:
  - DISCOMs must publish quarterly and annual accounts as per given timelines
  - Undertake measures to decrease unwanted regulatory assets
  - Interested State governments would have to release advance subsidy payments
  - Government bodies to clear all electricity dues for the year under evaluation
  - Loss makings DISCOM would be denied the financial bailout until it plans to reduce its losses and mitigate outstanding dues
  - The State governments and their DISCOMs would be required to sign a Tripartite Agreement with the Central government to avail benefits under the Scheme
- **Subsuming of various schemes:** It is proposed that the currently ongoing and approved projects under the following Schemes would be subsumed:
  - Integrated Power Development Scheme
  - Deendayal Upadhyaya Gram Jyoti Yojana
  - Ujwal Discom Assurance Yojana (**UDAY**)
  - Prime Minister's Development Package 2015 for Jammu & Kashmir and Ladakh

  The Scheme represents the combined aspirations and objectives of the subsumed power sector schemes listed above and brings them under a common umbrella – whether be it solarizing agriculture feeders, rapid installation of smart and pre-paid metering and even the all-round modernization of State-level transmission and distribution infrastructure.
- **Solarization of agricultural feeders:** The Scheme focuses on funding for feeder segregation for unsegregated feeders, which would enable solarization under KUSUM scheme. It merges with the PM-KUSUM Scheme for solarization of all feeders and to provide additional income to farmers.
- **Smart metering:** The Scheme enables consumer empowerment by way of prepaid smart metering:
  - Smart metering stems commercial losses by improving transparency in billing and empowers consumers to control electricity consumption, allowing consumers to monitor their electricity consumption daily instead of monthly basis
  - 25 crore consumers are to be installed under prepaid smart metering program through PPP mode, and 10 crore prepaid smart meters to be installed by December 2023
- **Leveraging Technology**: Artificial Intelligence to be used to generate energy accounting reports in order to enable DISCOMs in taking informed decisions on loss reduction, demand forecasting, Time of Day tariff, renewable energy integration and for other predictive analysis; supervisory control and data acquisition to be set up in all urban areas for better power monitoring.

Part B – Training and capacity building

The Scheme concluded that financial aid in isolation is inadequate to reform the DISCOMs. INR 1030 crore has been allotted by the Central government under Part B of the Scheme, with States providing INR 200 crores towards reforms support and consultancy. Part B underlines the following provisions:

- Upscaling of smart grid knowledge centers into research incubation hubs
- Training and capacity building of professionals
- Support to novel business processes
- R&D into new technologies like AI
- Establishment of awards and incentives for exemplary performances of eligible DISCOM employees

Conclusion

Systemic problems in metering, billing, collection, underinvestment, line losses, challenges to cost optimizations along with regulatory roadblocks and political indecision have forever stymied profitability and efficiency of DISCOMs in India. The policy initiatives of the MoP under the present Scheme appear to be well thought out strategic measures which, if implemented properly, will help turn the tide in terms of the financial outlook of India's beleaguered DISCOMs. However, the MoP would be well advised to bear in mind the calamities of previous power sector schemes that had similar promises but got stuck in the complexity, size and diversity of India's power sector. A case in point may be Govt. of India's UDAY scheme. Launched in 2015 it promised to bring about a turnaround in the operational and financial health of cash strapped DISCOMs by reducing their debt and AT&C losses to 15% and ACS-ARR gap to zero. However, the AT&C losses stood at 35.52% as of the present date and the ACS-ARR gap, which was INR 0.54/kWh in FY 2015-16 rose to INR 0.72/Kwh in FY 2018-19. As the present Scheme subsumes the UDAY, we hope that it does not inherit the track record of the UDAY scheme as well.

Though external expertise, structural frameworks, and new technology are required but they are not sufficient to drive India's power sector transition. Similarly, a thrust to retail choice through separation of content and carriage may not result in the full set of theoretical benefits envisaged. One of the key cautionary lessons from the history of the power sector in India is that the country is too large and diverse for a one-size-fits-all approach. It would be prudent for the Central government to stick to a two-track system, which would at one hand assume a uniform framework for all States and at the same time would have State-specific elements in its structure. A flexible and home-grown mechanism of implementation, which not only harmonizes State and Central political will, but which also allows for 'learning by doing', will be instrumental in determining the success of the present Scheme.