

Ujwal Discom Assurance Yojana (UDAY)

Myth Busters

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Key areas where myths exist

- 1 **Performance of REC and PFC**
- 2 **Energy Growth**
- 3 **Plant Load Factor (PLF)**
- 4 **Payment Delays**
- 5 **AT&C loss**
- 6 **Investment**
- 7 **Tariff**
- 8 **Cross Subsidy**

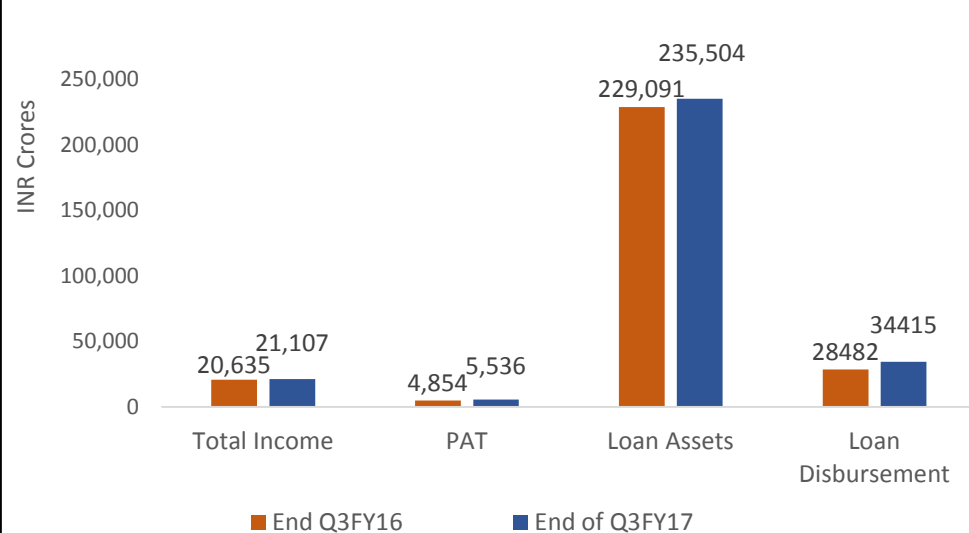
Performance of REC and PFC



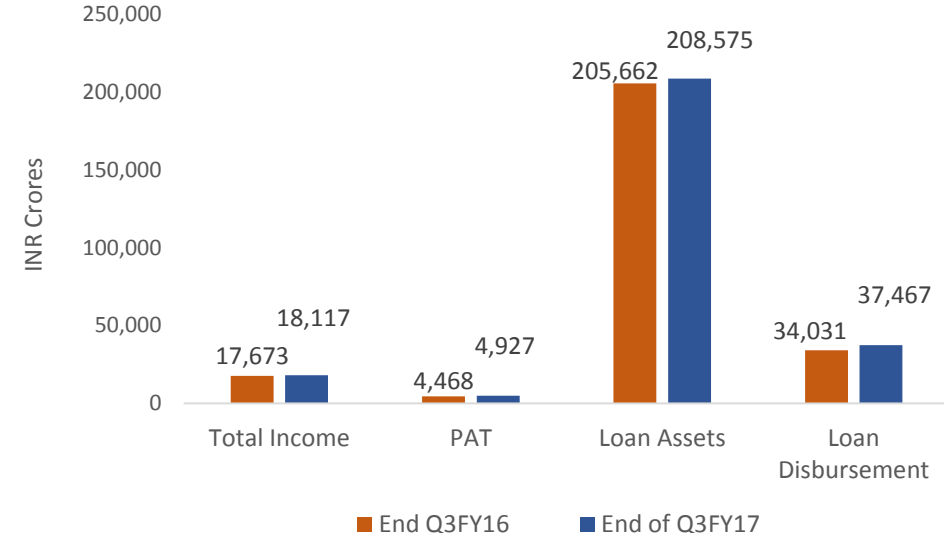
Myth

UDAY would have adverse impact on PFC and REC

Performance of PFC (Q3FY16 vs Q3FY17)



Performance of REC (Q3FY16 vs Q3FY17)



Reality

Financial performance of both PFC and REC has improved at the end of Q3 FY17 over end of Q3FY16

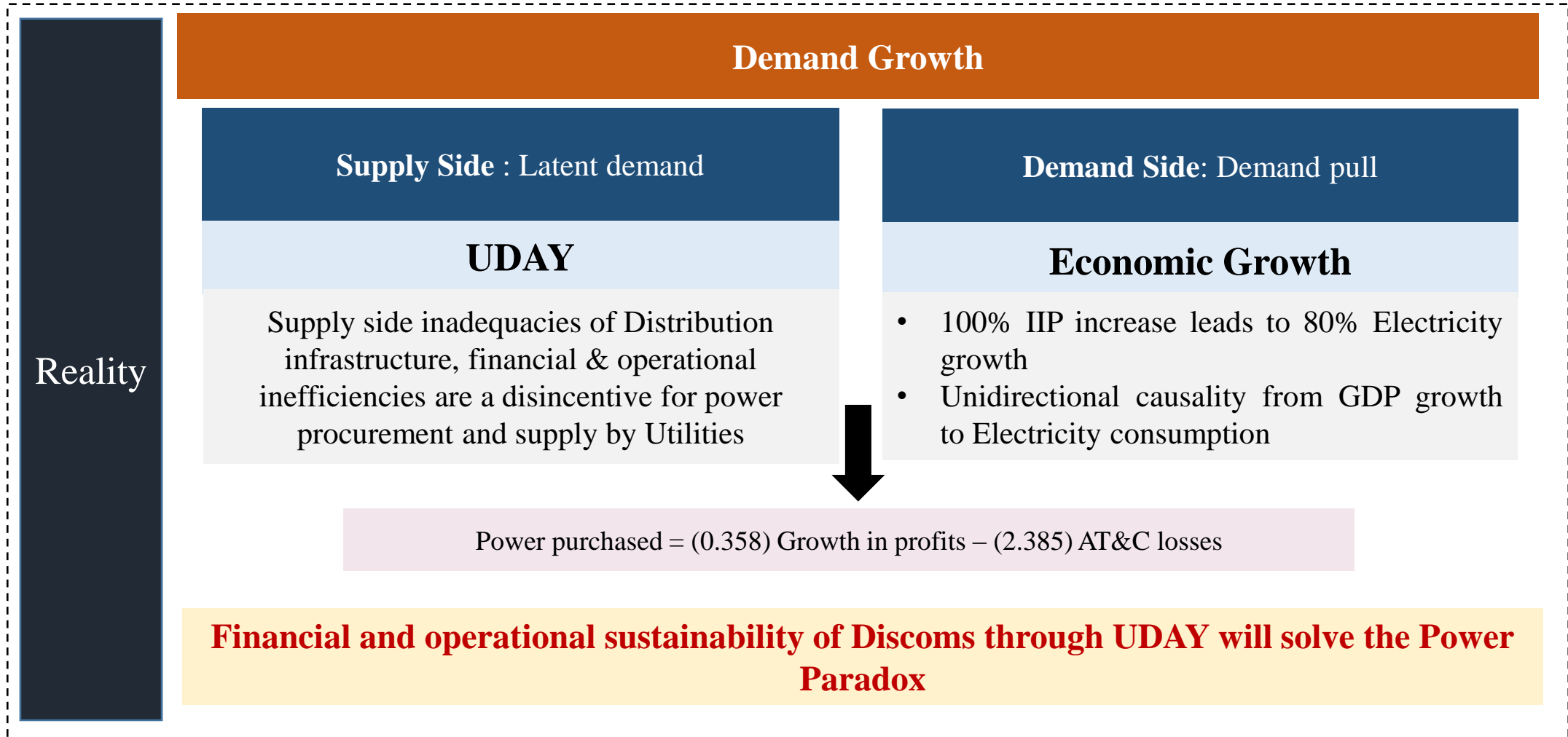
There is no evidence of adverse impact of UDAY on the performances of REC and PFC

Energy Growth



Myth

UDAY is not spurring Energy demand

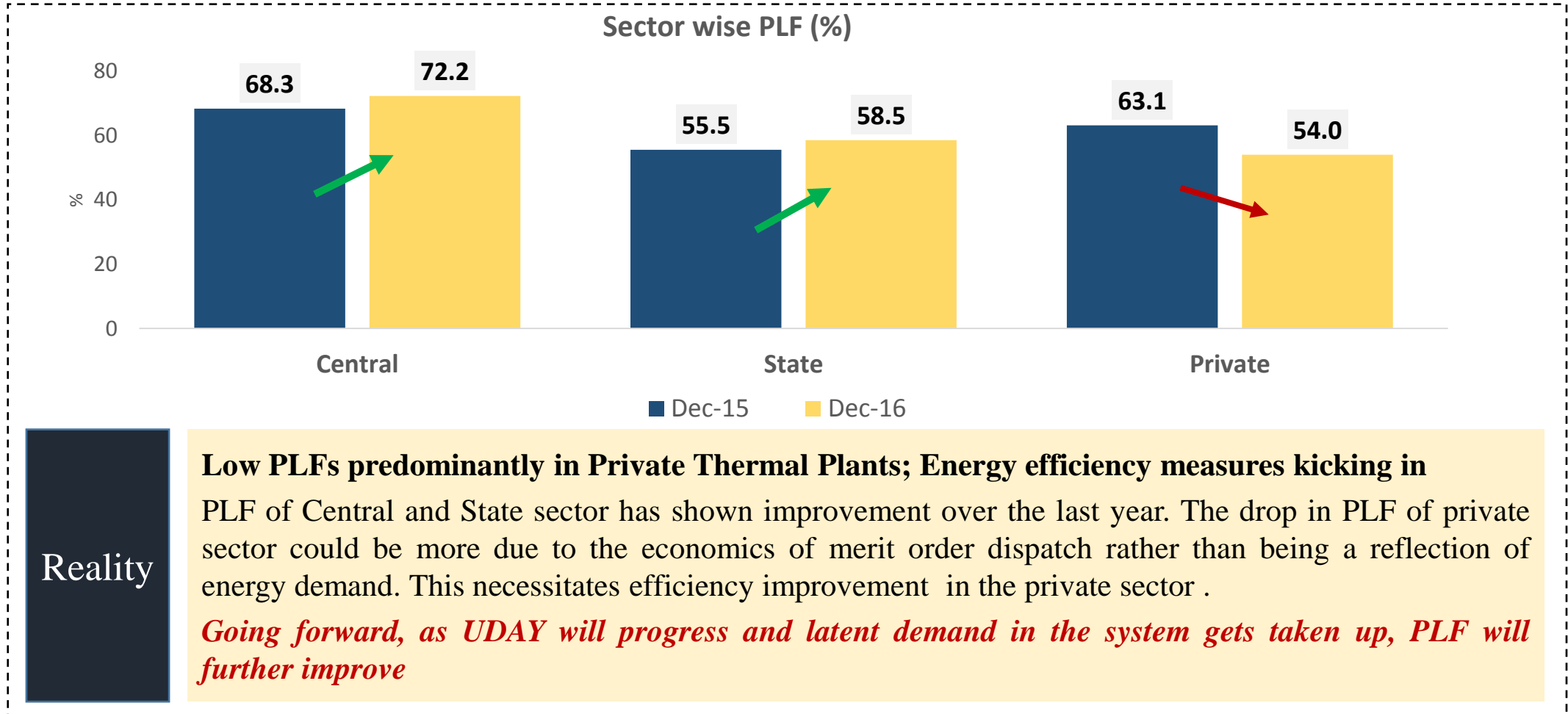


Plant Load Factor (PLF)



Myth

Low PLFs



AT&C loss



Myth

Concerns on AT&C losses and ACS-ARR improvements post UDAY

Reality

- AT&C loss is a direct function of Billing and Collection efficiency, which in turn depends upon following:

Billing and Collection cycle

Monthly or bi-monthly or quarterly with no standard pattern across discoms

Revenue

Economic changes affecting paying capacity, diversion of government funds etc.

Consumption pattern

Festivals, Summers, Crops sowing seasons etc.

Periodicity

Receivables, Payables Subsidy disbursement cycle etc.

- Changes/modification in above parameters may impact the AT&C loss figures considerably.
- Earlier, No system of Quarterly reporting of Accounts. UDAY emphasizes establishing good Corporate Governance practices and Quarterly Accounting system.
- **Trends on UDAY portal need to be interpreted accordingly as generic trends**
- Firm performance would be available **once annual accounts are finalized** and compared on **YOY basis**

Through UDAY, focus is on periodicity and standardization. Discoms are encouraged to follow a standard process of Quarterly reporting of information.

Payment Delays



Myth

Discoms have outstanding payables even after UDAY

- Outstanding payables position is stable over a period of time. Besides financial condition, other reasons are

Contractual issues
with Gencos

Incongruity in timing
of OFR support &
Bankers approach

Change in Subsidy
disbursal cycle

Legacy issues
specific to States

Efforts are being put to resolve the above and corrective actions being undertaken. Some examples include:

- **In Jharkhand** there were outstanding dues due to **delay in State OFR support**, however, the same has been resolved, with state allocating additional amount through supplementary budget.
- **Rajasthan** has cleared all overdue payments of CPSUs
- **States like Madhya Pradesh** have even earned rebates of ~ INR 187 Cr (FY 16) for timely payment of bills

On financial front, UDAY places **significant restraint on DISCOMs fiscal maneuverability** and calls for adherence to fiscal discipline. A couple of **aberrations only suggest that UDAY interventions are working**

Reality

GoI is determined to handhold states in achieving financial targets under UDAY. Issuance of Bonds under UDAY has already been instrumental in clearing major portion of debt and dues.



Myth

Tariff increase is the panacea of all Discom problems

- **The financial problems are because of ACS-ARR gaps. Narratives of revenue side – Tariffs – are therefore incorrect. Balanced approach requires improvement of Operational inefficiencies as well.**
- **Electricity is a merit good** for large number of Indian families and the **tariff structure must reflect this**
- Regulators have to **strike a balance** between imperatives of discoms remaining financially viable, and administering affordable tariffs to consumers.

UDAY does not merely envisage tariff hikes, but also includes measures to reduce the cost of power, and improve operational efficiencies to reduce ACS-ARR gap. However still, post UDAY wherever necessary, tariffs are being increased.

Reality

10 states have been granted tariff-revisions in FY17 by the respective Commissions to cover the Cost of Supplies

STATES	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Chhattisgarh	No hike	15%	14%	5%
Goa	No hike	8%	14%	4.8%
Karnataka	~5%	6%	3%	9%
Madhya Pradesh	0.78%	No hike	10%	5%
Manipur	Not issued	8%	No hike	8%
Uttarakhand	5%	No hike	7.1%	5%
Puducherry	NA	NA	NA	9.5%
HP	16%	-3%	0%	2%
Sikkim	NA	NA	3%	9%

Subsidy



Myth

Cross Subsidy is distorting the Power market

Reality

Category wise Average Billing Rate (FY15)

Category	ABR(INR/kWh)
Domestic	4.38
Agriculture	4.67*
Industrial HT	6.92

Given the fact that this is being charged for power that is unreliable and of low quality, the rate is reasonable

**In FY15: Revenue realised – INR 32,600 Cr; Govt. subsidy- INR 46,112 Cr; Total Revenue- INR 78,712; Units supplied- 168,611 MUs
ACS in FY15 - INR 5.2/kWh*

Operating within the current cross subsidy levels, UDAY is capable of improving the financial and operational health of discoms through measures which include AT&C loss reduction, reduction of cost of power purchase etc.

Investment



Myth

Investment opportunities in the Power Sector are reducing

Reality

- Power sector is likely to attract around **\$1 trillion** in investments by 2030 across segments such as **coal-based and renewable power**.
- As per IEA estimates, India would invest about **\$845 billion** in **T&D (Transmission & Distribution) networks between 2015 and 2040**
- Investment opportunities exist in following segments

Area	Investment (Approx.)	
	In INR	In USD
Smart metering, distribution automation, battery storage and other smart grid market segments over the next decade.	INR 2.9 Lakh Cr	\$ 44 Billion
Solar power for capacity addition of 100,000 MW at capital cost of INR 5.5 Cr/ MW	INR 5.5 Lakh Cr	\$ 84 Billion
Stressed thermal portfolio of more than 45,000 MW capacity	INR 4.4 Lakh Cr	\$ 67 Billion

*Source: www.researchandmarkets.com; PFC

Thus investments are not reducing, rather the structure of investments is changing

New avenues of investment will emerge on the distribution side e.g. solar rooftop, franchisee, DSM, smart meters etc. Discoms turnaround through UDAY will further improve the overall credibility of power sector, thereby making it more investment friendly.

Thank you