

IMPACT OF UDAY SCHEME ON ANDHRA PRADESH POWER DISTRIBUTION COMPANIES (DISCOMS)

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Abstract

Ujwal Discom Assurance Yojana (UDAY) is a financial restructuring and efficiency enhancing programme, aims to reduce the debt burden of the state owned electricity Distribution Companies (DISCOMs). Though the main component of UDAY is debt management, other measures like Improvement of Operational efficiency, Reduction of cost of generation of power, Development of Renewable Energy, Energy efficiency & conservation are also proposed to permanently settle the debt scenario of DISCOMs.

Keywords: *Restructuring, distribution, conservation, Renewable Energy.*

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Introduction

Power is the most essential infrastructure needed for growth in every sector of the Indian economy – industry, commerce, agriculture or even household activities. The Indian Power Industry is one of the largest and most important industries in India as it fulfills the energy requirements of various other industries. It is one of the most critical components of infrastructure that affects economic growth and the well-being of our nation. India is the fifth largest producer and consumer of electricity with a capacity of 311.11 gig watts (GW).

The Electricity sector has witnessed excellent improvements over the last few years across the entire value chain, from fuel supply (highest coal production growth in over two decades), to generation (highest ever capacity addition), transmission (highest ever increase in transmission lines) and consumption (over 2.3 crore LED bulbs distributed). The weakest link in the value chain is distribution, wherein Discoms (power distribution companies) in the country accumulated losses of about Rs 3.8 lakh crore and outstanding debt of about Rs 4.3 lakh crore in 2014-15, with interest rates upto 14-15%. Due to legacy issues, Discoms are trapped in a nasty cycle with operational losses being funded by debt.¹

Discoms suffer losses either due to technical reasons or commercial reasons. Losses due to technical reasons can be minimized by using latest technology and modern equipment for transmitting and distributing electricity. At the commercial level, the losses incurred can be managed by resisting the pressure to provide electricity for free to certain groups; pricing the electricity by taking into account the input, production, transmission and distribution cost along with a healthy profit and not based on political expediency; and reducing the cases of electricity thefts by unscrupulous people or entities.

Financially strained Discoms fail to supply adequate power at affordable rates, which hampers the quality of life and overall economic growth and development. Thus schemes which aim at 100% village electrification, 24X7 power supply and clean energy etc cannot be turned into reality without financially strengthening the Discoms first. This realisation covered the way for the union cabinet, to give its approval to a new scheme in November 2015 -- Ujwal Discom Assurance Yojna or UDAY.

Ujwal DISCOM Assurance Yojana (UDAY) is a financial restructuring and efficiency enhancing programme, aims to reduce the debt burden of the state owned electricity distribution companies (DISCOMs).

Objectives of the Study

The main component of UDAY is debt management, other measures like Improvement of Operational efficiency, Reduction of cost of generation of power, Development of Renewable Energy and Energy efficiency & conservation.

Salient Features of the Scheme

Following are the salient features of UDAY.

- States will take over 75% of the DISCOM debt as on Sept 30, 2015 - 50% in FY 2015-16 and 25% in FY 2016-17.
- States will issue non-SLR including SDL bonds in the market or directly to the respective banks / Financial Institutions (FIs) holding the DISCOM debt to the appropriate extent.
- DISCOM debt not taken over by the State shall be converted by the Banks / FIs into loans or bonds with interest rate not more than the bank's base rate plus 0.1%. Alternately, this debt may be fully or partly issued by the DISCOM as State guaranteed DISCOM bonds at the prevailing market rates which shall be equal to or less than bank base rate plus 0.1%.
- States shall take over the future losses of DISCOMs in a graded manner and shall fund them as follows:
- State DISCOMs will comply with the Renewable Purchase Obligation (RPO) with Ministry of Power.
- States accepting UDAY and performing as per operational milestones will be given additional / priority funding through Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Integrated Power Development Scheme (IPDS), Power Sector Development Fund (PSDF) or other such schemes of Ministry of Power and Ministry of New and Renewable Energy.
- Such States shall also be supported with additional coal at notified prices and, in case of availability through higher capacity utilization, low cost power from NTPC and other Central Public Sector Undertakings (CPSUs).
- States not meeting operational milestones will be liable to forfeit their claim on IPDS and DDUGJY grants.
- UDAY is optional for all States. However, States are encouraged to take the benefit at the earliest as benefits are dependent on the performance.

Andhra Pradesh has two Distribution Companies as APSPDCL (Andhra Pradesh Southern Electricity Distribution Company) and APEPDCL (the Eastern Power Distribution Company of Andhra Pradesh Limited). The DISCOMs have been reeling under financial stress. The DISCOMs have the revenue deficit during the Financial Year 2013-14 of Rs. 539 Crore with an expected revenue deficit of Rs.2401 Crore in FY 2014-15. The accumulated losses have reached to the level of Rs. 10307 Crore. The outstanding debt level of the DISCOMs has reached Rs. 14720.50 Crore at the end of Sept.2015, out of which non – capex loans and FRP bonds amounted to Rs. 11008.01 Crore. Also the interest cost burden is nearly Rs. 0.32 per unit during FY 2015. The ARR is insufficient to meet the ACS, with a cost recovery of only 91% (APEPDCL) & 89.7% (APSPDCL)².

The Government of India, Government of Andhra Pradesh and the DISCOMs have entered into a Tripartite MOU (Memorandum of Understanding) on 24th June 2016 in order to improve the operational and financial efficiency of the Andhra Pradesh DISCOMs to enable financial turnaround of the DISCOMs.

The borrowings made by the state to take over Discoms debt during 2016-17 shall be utilised by GOAP solely for the purpose of discharging the Discoms debt and transfer to Discoms as a mix of grant, loan or equity. The GOAP shall issue non-SLR bonds to raise funds for providing grant /loan to the Discoms.

Accordingly the Govt. of Andhra Pradesh has issued G.O M.S No. 27 Dt.26.07.2016, for take over the liabilities 75% of working capital loans and FRP bonds of the Discom outstanding DISCOM debt, including FRP 2012 bonds of State DISCOMs duly issue of non-SLR bonds under UDAY Scheme for discharging the debt of State Power DISCOMs.

Funds raised by GOAP utilised by the A.P DISCOMs for discharge of Loans

(₹. In Crore)

Nature of loan	Loan outstanding as on 30.9.2015	Repaid up to 31.3.2017
FRP bonds	4054.23	3417.69
Working capital loan as on 30.09.2015	4838.32	4838.32
Total loans cleared under UDAY	8892.55	8256.01

The above table shows Rs. 8256.01 Crores (APSPDCL Rs. 5257.02 Crores, APEPDCL Rs.2998.99 Crores) is very useful to the AP DISCOMs for overcome the losses, strengthen the Financial efficiency and improving the Operational efficiency of DISCOMs³.

Further , the GOAP has to take over 5% of the losses of FY 2015-17 (FY 2015-16 & FY 2016-17) during the FY 2017-18, 10% loss of the FY 2017-18 during 2018-19, 25% of the loss of FY 2018-19 during FY 2019-20 and 50% loss of FY 2019-20 during FY 2020-21 as per the above MOU.

Conclusion

UDAY Scheme seems to be a Golden opportunity to future proof-reform and restructuring programme for the struggling power distribution companies and its success will, to a large extent, depend on the support it receives from the participating States in carrying out the spirit and intent of the scheme.

References

1. <http://pib.nic.in/newsite/PrintRelease.aspx?relid=130261>
2. The Government of India, Government of Andhra Pradesh and the DISCOMs have entered into a Tripartite MOU (Memorandum of Understanding) on 24th June 2016, pp 2-5.
3. APSPDCL and APEPDCL Annual Reports for the FY 2016-17.