PRIVATISATION REPLACES GOVT MONOPOLY WITH PVT ONE, A SUB-OPTIMAL SOLUTION

'Opening up competition in discom key to efficiency, nearly all states on board'

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NEARLY ALL states are on board with the government's intention to open up the power distribution sector to competition through the Electricity Amendment Bill, a move that will ensure that consumers get a choice and service providers have to compete with each other, Union Power Minister R K Singh told *The Indian Express*.

Singh added the opening up of competition in power distribution was the best solution to the efficiency issues faced by the sector, which is clearly the weakest link in India's power sector and that is fundamental to the financial viability of the upstream generation and distribution sectors. Issues such as poor billing, collection efficiency and high receivables from state governments have led to state-owned discoms (distribution companies) consistently struggling with high losses, raising question marks over the financial viability of investments in the entire sector.

"I've had consultations with the states, all the principal secretaries, division wise ... I think only one state probably said that this will be difficult, everybody else has discussed the mechanics of it, not the principle of it," Singh said on the plan to introduce competition for discoms, which currently have monopoly on distribution in their service areas, be it state-owned discoms or private service providers.

West Bengal Chief Minister Mamata Banerjee had in August written to the Prime Minister, citing opposition to the move, calling the Bill "anti-people". Banerjee said the Bill would lead to private sector players "cherry picking" areas with high paying industrial and commercial consumers, leaving state discoms "sick" and having to provide services to only rural and agricultural consumers whose consumption is subsidised.

Singh said the allegation of cherry picking by service providers is unfounded. He said new players would prioritise entry in areas where there is wide room for efficiency and bringing down lower prices, noting that the cross-subsidisation of rural and agricultural consumers through higher tariffs charged to industrial and commercial consumers would continue.

"So, what happens is that if in a particular area, there are more payers of cross-subsidy than the consumers of the cross-subsidy, there will be a cross-subsidy surplus that will be deposited with that organisation (subsidy holder appointed by states) and that cross-subsidy goes to finance areas where the demand for the cross-subsidy is more than the cross-subsidy collection," he said. The principle is something that has been tried out in the telecom sector by way of the USO Fund, where resources for meeting the service obligation in remote, unviable areas were to be generated through a universal access levy at a stipulated percentage of the revenue earned by the telecom licensees, with service providers operating in remote, unviable areas to be duly reimbursed from this fund.

Power Minister R K Singh. *File*

Multiple Central government schemes to reduce discom losses and improve operational efficiency have not been able to ensure a sustained turnaround of discoms. High outstanding government department dues to discoms valued at Rs 97,088 crore in June and subsidies payable by state governments to discoms at Rs 60,743 crore are also putting severe stress on discom finances. Low billing efficiency is a key issue in the distribution sector, with discoms registering an efficiency of only 85.4 per cent in FY20.

Financial instability of discoms has also led to a delay in payments to power generation companies, with major companies such as state-owned NTPC Ltd, threatening to regulate power supply to major discoms over payment delays. In June, discoms had payables of about Rs 1.76 lakh crore to state and Central power generation companies and transmission companies. "So, one thing is clear that if power bills are not paid for 45 days, which is the payment time, then regulation will happen. This is going to happen. I have told every genco (generation company) that no payment means no electricity. Otherwise, discipline will not come," Singh said.

The government has recently announced a new Rs 3.03-lakh-crore discom reform scheme to bring down aggregate technical and commercial losses to 12 per cent, down from a national average of about 22 per cent currently, and to eliminate the gap between the cost of supply and average revenue realised by discoms. The new scheme is linked to improved operational performance by discoms with the release of funds by the Centre being contingent on achievement of reduction in losses and installation of modern infrastructure, including smart meters.

Singh also noted that privatisation of power distribution as an alternative to delicensing was a "sub-optimal" solution to improve discom efficiency and service for consumers. "... privatisation is that you are replacing a government monopoly with a private monopoly. So it's a sub-optimal solution. Some would say that a private monopoly is worse than a government monopoly," he said, adding the amendment would just open the door for competition and that existing discoms would continue as they are.

Privatisation of state discoms in certain areas including Delhi, Ahmedabad, Kolkata and Mumbai has led to increase in operational efficiency and improvements in financial stability, though the concept of ushering in competition within a service area is still to be achieved.