

# **DISCOMs in Financial Crisis - Andhra Pradesh and Telangana Experience**

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**I**

## **CRISIS**

There is no denying the fact that the DISCOMs in Andhra Pradesh (AP) and Telangana are facing crisis.

A few indicators of this crisis are placed below:

DISCOMs in both the states have to pay dues to power generator. This indicates inability of DISCOMs to pay to the power generators for the power procured from them.

As of July 2020 APDISCOMs,' dues to generators stands at Rs. 4,003 crores. Out of this RE generators have to receive about Rs.2,500 Crore.

TSDISCOMs' dues to generators stands at Rs. 5,029 Crore. Out of this about Rs. 1,200 Crore are to be received by RE generators.

In fact, these are optimistic figures. A few months back dues of DISCOMs of both these states were more than Rs. 10,000 Crore each.

As a part of Atmanirbhar package Rs. 90, 000 Crore relief was sought to be provided to debt ridden DISCOMs. Under Atmanirbhar package AP sought Rs. 6,000 Crore and Telangana Rs. 12,000 Crore.

DISCOMs in both these states are also facing huge accumulated losses. Accumulated losses of APDISCOMs are about Rs. 29,000 Crore by December 2019 and that of TSDISCOMs about Rs. 23,000 Crore.

**II**

## **WHY?**

How did DISCOMs of AP and Telangana reached such a situation? DISCOMs' dues to generators indicate that they did not have the capacity to pay the generators for the power procured from them. The DISCOMs did not receive the revenue as allowed under the tariff orders of the respective ERCs. In other words, they are facing arrears from electricity consumers served by them. Significantly huge arrears have to be received from Govt departments in both these states.

In the case of AP according to tariff order of APERC for the FY 2020-21 total arrears from Govt departments are Rs. 8,298.73 Crore.

In the case of Telangana arrears from Govt departments are Rs. 8,426 Crore (Andhra Jyothi, 15-01-2020)

Under UDAY scheme govt departments were supposed to clear all arrears by March 2017.

Delay in subsidy disbursement by the state governments is also one of the reasons for DISCOMs failure to pay generators in time.

In the case of AP according to tariff order of APERC for the FY 2020-21 GoAP is yet to release Rs. 5,759.50 Crore towards for the years 2018-19 and 2019-20. This is about 50% of the subsidy promised by the state government for these two years.

TSDISCOMs are also not receiving subsidy in time.

ERCs in their tariff orders provided that in case DISCOMs did not receive subsidies from the state governments as directed by them the DISCOMs are free to collect full cost tariff from consumers. But no DISCOM ventured to collect full cost tariff and waited for the state governments to fulfil their written commitments.

FSA/True up exercises were not taken up in time leading to accumulated losses.

In AP true up was not taken up during the control period 2015-19. True up for this period was taken up during the next control period. Under the recent true up exercise APDISCOMs claimed Rs. 19,603.95 Crore.

In the case of Telangana partial true up was done for two years and detailed true up was taken up only after the completion of the control period. TSDISCOMs have claimed more than Rs. 10,000 Crore towards true up for this control period.

DISCOMs of both the states have agreed to take up FSA/true up in time as a part of UDAY agreement. But they did not do so.

### **III**

#### **No Tariff Hike**

Though there was annual tariff exercise in AP there was no tariff hike.

This led to increase of subsidy burden on the state government. Subsidy increased from Rs. 5,144 crores in 2019-20 to Rs. 10,060 crores in 2020-21. More than 80% subsidy went to agriculture consumers.

In Telangana tariff exercise was not taken up for the years 2019-20 and 2020-21. Subsidy during the year 2018-19 was more than Rs. 6,000 crores. During this year the TSERC left about Rs. 1,000 crores uncovered saying that it will be taken up later.

Generally, tariff covered about 80% of CoS.

National tariff policy as well as the proposed amendments to E Act propose reduction or phasing out of cross subsidy. A look at cross subsidy situation in AP is as follows:

According to the tariff order for the year 2020-21 in the case of industrial sector cross subsidy burden is 7% higher than CoS. This comes to about Rs. 800 Crore. This can be gradually reduced to 0 (zero). High government subsidy this year is explained to be a result of lower cross subsidy

In the case of commercial consumers tariff burden is 50% higher than CoS. Most of the commercial services are under LT. Given this fact scope for migration of these services may be low.

## **IV**

### **Power procurement cost**

Power procurement cost accounts for more than 80% of ARR (tariff + subsidy). Higher power purchase cost is because of ill planned and questionable power procurement. It is important to explore avenues to reduce this burden.

In AP there were some exercises in this direction.

GoAP proposed renegotiation RE PPAs. But it has led to huge backlash. GoI expressed its unhappiness about this. Now a few cases related these PPAs are before the Supreme Court and AP High Court. Though AP High Court has given interim order the cases are yet to be disposed off.

GoAP proposed to set up 10,000 MW solar power generation capacity to meet agriculture needs. At present CoS to agriculture is more than Rs. 7 per unit. Solar power costs less than Rs. 3 per unit. Most of this capacity is proposed to be set up on utility scale/mega solar plants/solar parks. Solar power suitable for decentralised, distributed generation and also leads to lower or absence of T&D costs. If utility scale plants are adopted the savings from solar power may be negligible and in the presence of surplus power savings may not be there.

GoAP proposed handing over Rayalaseema Thermal Power Plant (RTPP) (1650 MW) to NTPC. In the face of opposition from utility employees the state government appointed an Expert Committee to look in to the issues. The Expert Committee proposed to alternative solution – one is to take up efficiency measures internally and another is to transfer the plan to NTPC.

Even before the issue of RTPP is solved the GoAP also proposed to handover Sri Damodaram Sanjivayya Thermal Power Station (SDSTPS) (1600 MW) to Sembicorp, a private power generation company which has a power plant in the geographical area as that of SDSTPS.

Then APGENCO will be left with VTPS only. These units are also facing similar problems – high fixed and variable costs. Solutions do not lay in handing over the plants to other entities. Internal savings, efficiency options need to be explored.

In the case of Telangana in the absence of annual tariff exercise for the last two years no clear picture is available. Also, there is no long-term load forecast.

Even in the presence of surplus power situation new power plants with aggregate capacity of 8,280 MW are in the process of being set up. These include Bhadradi (1,080 MW), Yadadi (4,000 MW), NTPC (1,600 MW), KTPS (800 MW) and Singareni (800 MW). There are no PPAs with respect to these plants.

## V

### **Bail out**

Bail out is not the way out. The country has seen four bailouts without any significant improvement in the financial health of DISCOMs. On the same way fifth bail out may not be of much use.

In a way the present situation is a creation of state governments. Let them handle it.

Under bailout interventions central govt did not take up any financial burden. It only helped in swapping of loans. The financial burden was borne by the state governments.

Under UDAY also financial burden was borne by the state govts through taking over debt of the DISCOMs. At the same time neither the state governments nor DISCOMs took care to implement steps agreed under UDAY like time bound FSA and true up exercises.

Under bailouts every one (except state govts) gets away, including those with the capacity to pay.

Along with annual tariff exercise FSA/True up shall be taken up in time bound manner. At the same time efforts must be made to bring down power procurement costs and T&D costs.

Consultative process involving centre and states shall be initiated. As conditions differ from state to state, state specific plans need to be formulated. A single model will not be suitable to all the states.

At the same time the central government can take up one initiative. Higher railway freight tariff is one of the reasons for higher variable cost. In the case of some power plants away from coal mines railway freight tariff is higher than coal price. This railway freight tariff includes cross subsidy. As Gol is advocating reducing/phasing out cross subsidy it shall set an example by fixing railway freight tariff according to CoS and without cross subsidy. This will help to bring down power generation cost.

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