Payment Reschedule

MoP releases LPS rules to tackle discom dues

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To improve the cash flow in the power sector and introduce payment discipline among discoms, the Ministry of Power (MoP) recently issued the Electricity (Late Payment Surcharge and Related Matters) Rules 2022, which allow discoms to repay their outstanding dues, including principal amount and LPS, to generation and transmission companies in equated monthly instalments (EMIs). Accordingly, the total dues will be rescheduled and the due dates will be redetermined for payment by a discom. Industry experts share their views on the new rules, the need for liquidation of past discom dues and the long-term strategy to avoid a build-up of discom dues in the future. Excerpts...

Do you think the distribution segment needs another round of liquidation of past dues? What should be the long-term strategy for avoiding a build-up of discom dues in the future?

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Delays in payment against power purchase by distribution companies (discoms) is the biggest reason for the liquidity stress in generation companies (gencos). As per the data available on the PRAAPTI portal of the Government of India, the overdue debtors contribute $12 billion to the total outstanding dues of $15 billion of the discoms towards gencos as of May 30, 2022. To put this in perspective, the government had infused around $14 billion in the power distribution sector in 2020-21 through financing from central power non-banking financial companies, namely, Power Finance Corporation Limited (PFC) and REC Limited, to the eligible discoms. The current overdue indicates that we are going back to square one, and hence, another round of liquidation of past dues is necessary.

Unlike the previous schemes where financing was arranged or liabilities were taken over by state governments, the recent EMI notification is more of a measure to ensure payment discipline among the discoms. The scheme takes cognisance of the discoms' inability to make huge payments to clear overdues because of their weak financial position and aims to reschedule their liabilities towards select creditors. As per the June 3, 2022 notification by the Government of India, the total outstanding discom dues, including late payment surcharge (LPS) up to the date of the notification, will be rescheduled and the due dates redetermined for payment by discoms in several EMIs. Discoms with larger overdues will be allowed to pay in a higher number of EMIs capped at 48 months. These discoms will communicate, in writing, within 30 days of the promulgation of these rules to the genco/transmission company/energy trader about the outstanding dues and several instalments in which the outstanding dues will be paid.

One important part of this notification that is a meaningful deterrent is that in case of a delay in the payment of an agreed instalment by a discom, LPS shall be payable on the entire outstanding dues as on the date of notification of these rules. Also, the non-payment of instalments will invite the regulation of power including, but not limited to, restricted access to power exchanges. Akin to the August 2019 rule, which made the issuance of a letter of credit (LC) mandatory for discoms against the power purchase from gencos, these rules will bring in a much-needed payment discipline in the power distribution sector. From a discom's angle, these

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rules provide respite from the relentless accumulation of LPS. While reduced from the earlier LPS rate of 18 per cent to the current rate of approximately 12 per cent (State Bank of India marginal cost of lending rate plus 5 per cent), the weak cashflows meant continuous addition of interest liability. With this rescheduling, the LPS meter would be paused till the agreed instalments are cleared.

Over the past two decades, the power distribution sector has witnessed a plethora of schemes aimed at fixing the financial stress. This involved the takeover of discom liabilities by the state governments, infrastructure upgradation, aggregate technical and commercial (AT&C) loss reduction and elimination of the gap between the average cost of supply and average revenue realised. All such schemes, while strong on intent and partially delivering on execution, have not been able to turn around the distribution sector. The rules above discussed are also just a band-aid without treating the deeper malaise. The single most important factor for the success of any scheme would be the political will to take up sectoral reforms in the state. These days, apart from the old issues of high AT&C losses, high power purchase and employee costs and political interference in running the utilities on professional lines, are affecting the discoms' cash flows due to delayed payment of subsidies by the state governments, delayed or non-payment of dues by the state department/ministries, inadequate and delayed receipt of the tariff order. In my view, stricter enforcement of the August 2019 LC rules and the June 2022 EMI payment rules should be able to address the build-up of discom dues in the long term. Having said that, none of the schemes and rules can work unless the fundamental issue is addressed, that is, to operate discoms on commercial principles without interference from their political masters.

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While the Covid-induced delay in payments to discoms and increase in power procurement costs due to issues with coal availability are triggers that have brought the financial issues of discoms to the fore, it must be noted that the issues with discom finances have persisted over decades. In fact, the distribution sector seems to require a bailout every five to seven years due to a build-up of short-term loans. The build-up of liabilities, close to Rs 4,500 billion post the Ujwal Discom Assurance Yojana (UDAY), is primarily due to the rising cost of inputs and supply, as well as due to