Power:
Evaluation of UDAY

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Ujwal DISCOM Assurance Yojana (UDAY) was a programme launched by the government to revive the power sector and provide in the medium run affordable and accessible 24x7 'Power for All'. The focus was on the entire value chain starting from fuel supply, 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 in this segment is distribution, where the DISCOMs in the country have accumulated losses of around Rs. 3.8 lakh crore and outstanding debt of approximately Rs. 4.3 lakh crore as on March, 2015. Due to legacy issues, DISCOMs are trapped in a vicious cycle with operational losses being funded by debt. Outstanding debt of DISCOMs has increased from about Rs. 2.4 lakh crore in 2011-12 to about Rs. 4.3 lakh crore in 2014-15, with most of this debt being taken at an average interest rate of up to 14-15%.

UDAY works primarily through four initiatives:

- Improving operational efficiencies of DISCOMs
- Reduction of cost of power
- Reduction in interest cost of DISCOMs
- Enforcing financial discipline on DISCOMs through alignment with State finances.

Some of the goals spelt out are that the average AT&C loss is to come down from around 22% to 15% and the gap between Average Revenue Realized (ARR) & Average Cost of Supply (ACS) is to be eliminated by 2018-19.

The UDAY Scheme

- States to take over 75% of DISCOM debt as on 30 September 2015 over two years - 50% of DISCOM debt shall be taken over in 2015-16 and 25% in 2016-17.
- Government of India would not include the debt taken over by the States as per the above scheme in the calculation of fiscal deficit of respective States in the financial years 2015-16 and 2016-17.
- States are to issue non-SLR including SDL bonds in the market or directly to the respective banks/FIs holding the DISCOM debt to the appropriate extent.

- DISCOM debt not taken over by the State are to be converted by the Banks/FIs into loans or bonds with interest rate not more than the bank's base rate plus 0.1%. Alternatively, 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 are to comply with the Renewable Purchase Obligation (RPO) outstanding since 1st April, 2012, within a period to be decided in consultation with Ministry of Power.
    - States accepting UDAY and performing as per operational milestones are to be given additional 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. As a corollary States not meeting operational milestones will be liable to forfeit their claim on IPDS and DDUGJY grants.

UDAY hence aims to provide permanent solution to legacy debts of approximately Rs.4.3 lakh crores and address potential future losses. As on 08.12.2016, 17 States have signed the Memorandum of Understanding under UDAY, namely Jharkhand, Chhattisgarh, Rajasthan, Uttar Pradesh, Gujarat, Bihar, Punjab, Jammu & Kashmir, Haryana, Uttarakhand, Goa, Karnataka, Andhra Pradesh, Manipur, Madhya Pradesh, Maharashtra, Himachal Pradesh and the Union Territory of Puducherry The Government of Telangana has not signed a MoU under UDAY so far.

In order to facilitate such States that want to join but could not join UDAY, the Government of India has now decided to extend the timeline to such States up to 31.03.2017.

Progress so far

12 of the 17 states which have signed up for UDAY had been entitled to issue bonds to the extent of Rs 2.22 lkh crore and they have so far issued bonds of Rs 1.83 lkh crore which is around 82% of the total. The five states which lead the table are Rajasthan, UP, Haryana, Punjab and AP. States like Tamil Nadu and West Bengal have not yet signed up for UDAY. As a large part of this debt has been taken on by the governments, the DISCOMs would be in a better position to start afresh by invoking various reforms as suggested by UDAY to ensure that they become sustainable.

UDAY bonds issued so far

Rs crore	Bonds issued	To be issued
Rajasthan	70,525	77,218
UP	49,847	49,846
Haryana	25,951	34,518
Punjab	15,629	20,262
AP	8,256	11,008
Maharashtra	-	6,613
Jharkhand	6,136	6,427
MP	-	4,539
Himachal Pradesh	-	3,854
J & K	3,537	3,537
Bihar	2,332	3,109
Chattisgarh	870	1,314
Uttarkhand	-	-
Gujarat	-	-
Karnataka	-	-
Manipur	-	-
Goa	-	-
Puducherry	-	-
Total	***183,083***	***222,245***

Adherence to financial performance targets

UDAY had laid down 4 financial and 10 operational targets for the states signing the MoU within the financial performance targets besides the issuance of bonds, three other parameters have been spoken of.

1. **Tariff revision**

   14 of the 17 states have revised their tariffs so far in accordance with the guidelines laid down. The ones that have not done so are Rajasthan, Maharashtra and Jharkhand. One may hence expect to witness revisions in the coming year on this count.

2. **AT&C losses**

States have to ensure that the DICOMs bring down their aggregate technical and commercial losses to 15% by 2018-19.

Aggregate technical and commercial losses (%)

State	AT&C	State	AT&C
AP	11.7	Haryana	29.8
Goa	12.6	MP	30.0
Gujarat	13.1	Uttarkhand	33.3
Karnataka	15.8	Jharkhand	34.1
Puducherry	19.3	Manipur	46.8
Maharashtra	20.3	Bihar	47.1
Punjab	21.2	UP	47.9
Chattisgarh	27.6	J & K	74.2
Rajasthan	28.8	HP	n.a.

The average AT&C losses were 26.7% for the states put together. Andhra Pradesh, Goa, Gujarat, Karnataka and Puducherry had ATC losses of less than 20% which is impressive. Maharashtra and Punjab are also lower than the average. J&K, UP, Bihar, Jharkhand, Manipur, Uttarkhand and MP are the lowest in the scale with high ratios and would have to work hard with a ratio of above 30%.

3. Average cost of supply minus average revenue realization (ACS-ARR) Rs per unit

This indicator talks of the gap between the cost and revenue which is reflective of both the efficiency as well as control over the tariffs. This is to be reduced to nil by 2018-19 as commercial viability for any venture depends on the cost being covered by revenue.

Gujarat and Chattisgarh top the chart with revenue being higher than cost, which is remarkable, while Manipur breaks even. The average for states is 62 paise deficit and 6 of them are lower than this mark. These are Puducherry, Maharashtra, AP, Karnataka, Haryana and Uttarkhand. J &K, Punjab, MP and UP have very high losses on this score and would have to work harder to ensure that this difference comes down so as to be in compliance with the UDAY commitments considering that UP and Punjab in particular are the higher borrowing states.

Average cost of supply minus Average revenue realized (Rs/unit)

State	ACS-ARR	State	ACS-ARR
Gujarat	-0.94	Rajasthan	0.83
Chattisgarh	-0.06	Bihar	0.88
Manipur	0	Goa	0.88
Puducherry	0.17	Jharkhand	0.89
Maharashtra	0.23	UP	0.92
AP	0.25	Punjab	1.05
Karnataka	0.29	MP	1.07
Haryana	0.45	J & K	3.32
Uttarkhand	0.46	Himachal Pradesh	n.a.

Conclusions

On the whole most of the states are progressing in the right direction and as the main targets have to be met by 2018-19, they would be better placed to move closer to the ideal in the next two years.

- Those which have not revised their tariffs like Rajasthan and Jharkhand will find it that much harder to lower the gap between ACS and ARR. As Maharashtra has a better gap here, revision in tariff may not be that serious an issue as the gap is low.
- Uttar Pradesh would require to work really hard as it has the highest level of debt, AT&C losses and ACS-ARR gap.
- Jharkhand also has relatively higher borrowings and would have to lower both AT&C and ACS-ARR gap significantly to reach the targets set by the UDAY Scheme. The same holds for MP too which has however, so far not raised any bonds.
- Gujarat and Karnataka do not have UDAY bonds on the agenda and have low AT&C losses and better realizations.
- AP has covered the DISCOM debt and has low losses and better realizations and is able to balance the two.
- Chattisgarh has low borrowings but also needs to lower the AT&C losses.

As this progress is being monitored by the government on a near-real time basis, the same can be evaluated in 2017 to gauge how states have performed in relative terms. Control of physical losses and better realizations through tariff revisions to match changing cost structures would be the way forward.

(All data presented is from www.uday.gov.in)

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