DBT for Electricity: Need to test waters before jumping in

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The Ministry of Power is championing the mandatory use of Direct Benefit Transfer (DBT) for all electricity subsidies. This has been proposed in the recent draft amendments to the Electricity Act and the National Tariff Policy. DBT involves subsidy provision in the bank accounts of consumers as opposed to the current mechanism, where the subsidy is provided en masse by the State Government to the distribution company (DISCOM). DBT implementation could potentially help target subsidies, incentivise behaviour change and reduce wastage of scarce public funds. However, policymakers should not underestimate the potential issues that can arise during implementation.

State Governments in India shell out about Rs.1.2 lakh crores every year as electricity subsidies to reduce the tariff of consumers. About 90% of these subsidies accrue to agricultural consumers and some sections of residential consumers (there are over 2 crore agricultural connections and 19 crore residential connections in India). Most beneficiaries are unmetered and the subsidy is provided on assumed consumption norms, which are often overestimated. For example, in Uttar Pradesh the assumed monthly consumption for a rural home is 72 units, which is closer to the average consumption of homes in Mumbai and Hyderabad. A similar trend has been observed for agricultural consumers in multiple states. Such overestimation implies that losses incurred by the DISCOM are disguised as additional consumption by unmetered consumers, which state governments end up subsidising. In such a case, DBT could potentially reduce the incentive for overestimation consumption, as the benefits will be transferred to consumers.

DBT is reportedly being used in over 430 schemes and the optimism for DBT in electricity stems from the reported success in providing subsidies for LPG and for wages under the MNREGA. Some state governments are already rolling out DBT for electricity. The Rajasthan government announced DBT for providing Rs. 10,000 as subsidy annually to each agricultural consumer. Punjab and Gujarat are also using the mechanism in small-scale pilot projects. Keeping aside crucial issues related to access to banks and the exclusion errors which have been reported for DBT in other schemes, it is crucial to discuss issues specific to the electricity sector and devise measures to address them before universal adoption.

In the pilots being implemented, there are issues in identifying the subsidy recipient where the users of electricity are tenants but the connection is in the name of the property owner. There is a need for legal and regulatory steps to ensure that the subsidies are provided to electricity users rather than the owners. While benefits are transferred to the users, such measures should also ensure that the rights of the owners are protected. Identification of recipients is also difficult with joint ownership and in case of inheritance issues.

Additionally, consumers might find it difficult to manage if the unsubsidised bill is to be paid prior to subsidy transfer, as proposed in the Rajasthan scheme. A small farmer in the state would have to pay Rs.5000 to Rs. 6000 before receipt of subsidy, which could be unaffordable. Therefore, similar to DBT in LPG, some subsidy can be deposited initially to enable first payment. Some states provide free power to farmers. The sudden imposition of advance payment on consumers (who have never paid for electricity) before receipt of subsidy will be difficult to implement.

Currently, subsidy payments are often delayed by State Governments for prolonged periods. Cash strained DISCOMs bear the brunt of this delay and end up taking high cost short-term loans, postponing maintenance works or rationing supply, to continue operations. There are no mechanisms to address such delays in the DBT regime. In fact, the issue is likely to persist and impacts could be intensified with DBT.

The impacts of delayed payment after adoption of DBT will depend on the payment mechanism, which is yet unclear. The subsidy amount can be transferred from the Government to the DISCOM and then provided to consumers or can be provided directly to consumers by the State Government. If DBT is implemented such that the subsidy is finally transferred by the DISCOM, the state-owned company would continue to charge subsidised tariffs in case of delays and end up bearing the adverse financial impacts. If the subsidy payments are being made directly to the consumer, delays in disbursal can result in significant tariff shock. In such a scenario, consumers might choose to pay only the subsidised bills or may even resort to non-payment of bills. Without a framework to increase accountability for delay in payment or to address impacts of delays, non-payment of bills could result in penalties for consumers, build-up of arrears, possible increase in commercial losses or even disconnection.

Presently, part of the subsidy is met through payments made by the DISCOMs for repayment of loans or due to collection of electricity duties. With impact of delays being significant, ensuring timely payment of these amounts will become more crucial with DBT.

Several issues with far-reaching impacts could arise during large scale adoption of DBT. These need to be addressed with adequate policy measures and innovative plans for implementation. Before universal DBT for electricity is applied, close attention needs to be paid to on-going pilots and more large-scale pilots are necessary. Lessons from multiple pilots for a varied mix of consumers can inform steps needed to ensure smooth implementation. Electricity Regulatory Commissions, DISCOMs and State Governments should allow different kinds of pilots with strong monitoring, evaluation and learning mechanisms, before signing on to universal adoption. Further, there is a need for third-party audits authorised by regulatory commissions to check if consumers are aware of subsidies provided, if they are in receipt of promised subsidies and to verify if the impacts due to delays are borne by the government. To ensure oversight, Section 65 of the Electricity Act can be amended suitably in the current process to provide regulatory mandate for monitoring DBT implementation when adopted by the state.

- *Ann Josey*