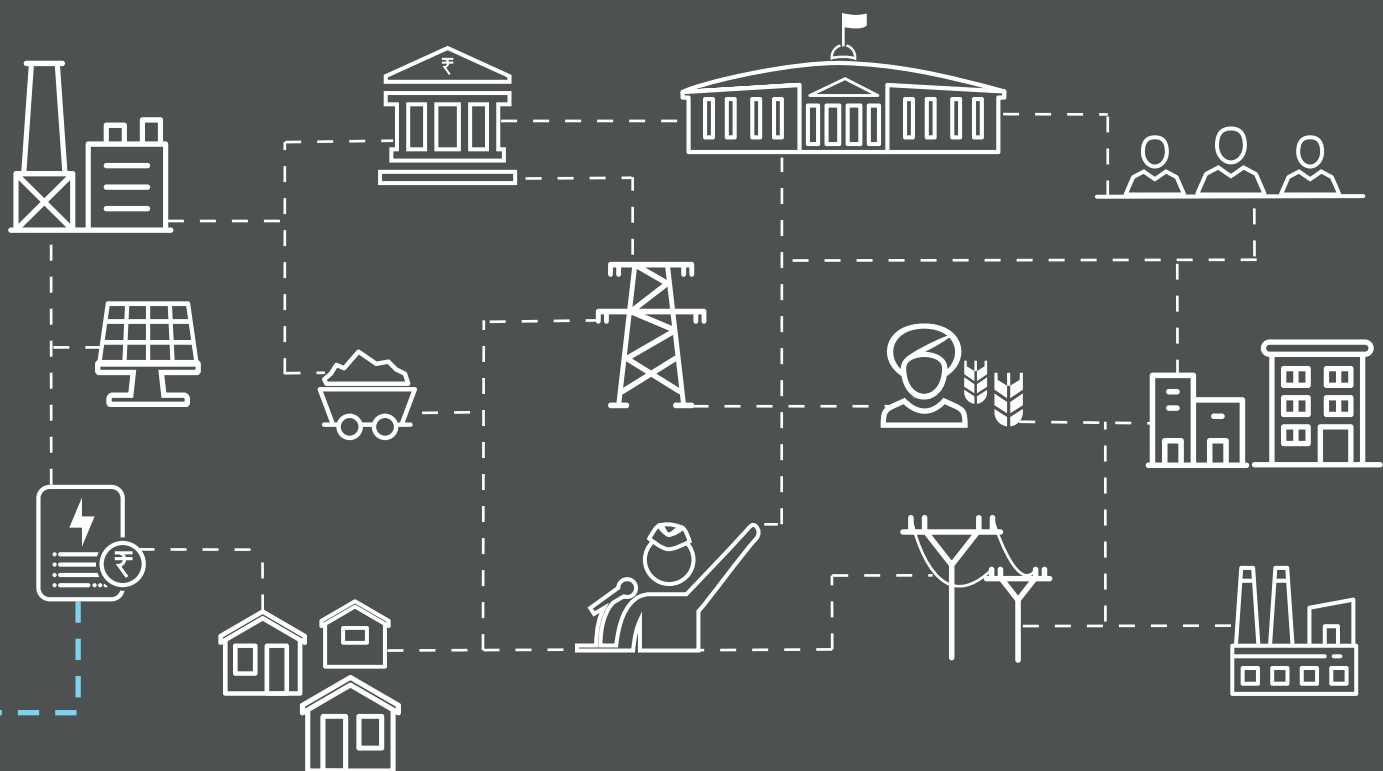


# Elephant in the Room

Implications of **subsidy** practices on DISCOM finances

A report in **snapshots**



## About the Infographics

This booklet contains a series of infographics based on the analysis and key observations from 'Elephant in the Room: Implication of subsidy practices on DISCOM finances', a study of electricity revenue subsidy commitments and payments in six states in India. The focus of the report is not to document state specific realities in detail but to highlight state-level observations pointing to larger trends in the sector.







The entire report can be accessed here: <http://www.prayaspune.org/peg/publications/item/419>

The objective of the infographics is to provide a quick snapshot of analysis from the above-mentioned report and in that respect, these infographics should be read in the context of the report. The analysis, observations, information, sources and references are all available in the report.

The infographics broadly trace the chapters in the report as shown below:

Title	Description
Introduction	Gives a brief overview of the nature and extent of subsidy payments in India, the potential reasons for its future growth and relevance, and the need to understand state-level trends from various sources.
Gujarat Haryana Punjab Tamil Nadu Uttar Pradesh Bihar	State level trends on extent of subsidy, major subsidised categories, payment practices, delay in subsidy payment and channels of regulatory accountability are discussed.
Commentary	Based on key trends from the states, some observations and suggestions are discussed.

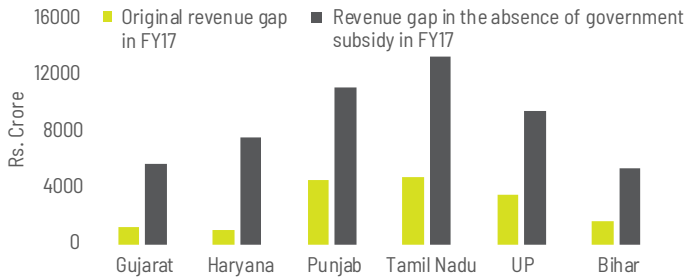
Each of the panels contain graphs, tables and pictorial representations of information. The table below provides a key to some of the symbols and abbreviations used:

	Agricultural consumers		Industrial consumers
	Domestic consumers		Regulatory institutions
	Increase / Decrease		Unmetered consumers

DISCOM	Electricity Distribution Company	ARR	Annual Revenue Requirement
E Act	Electricity Act	ERC	Electricity Regulatory Commission
UDAY	Ujwal DISCOM Assurance Yojana	BPL	Below Poverty Line
UP	Uttar Pradesh	T&D	Transmission and Distribution

# CONTEXT

## 1 Why is subsidy important?

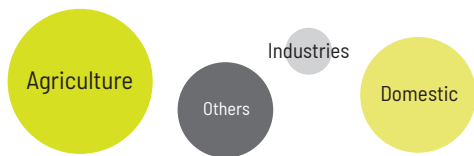


In these states subsidy forms **12% to 33%** of the ARR

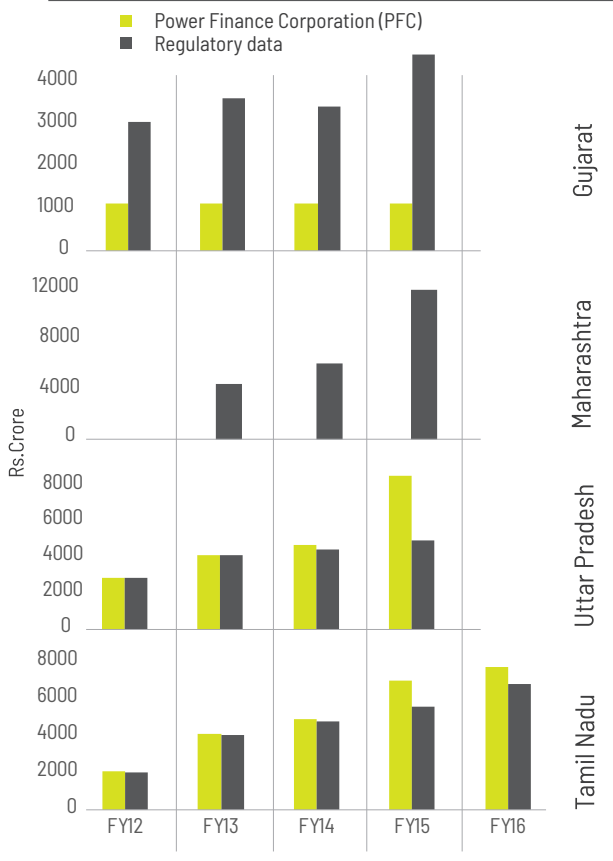
## 2 Subsidy will continue to be important...

- Increase in newly electrified, small consumers who need affordable power supply
- Increase in open access and captive consumption which limits cross subsidy
- Increasing cost of supply for DISCOMs

## 3 Who are subsidised?



Subsidy in PFC reports ≠ Subsidy in regulatory & government documents

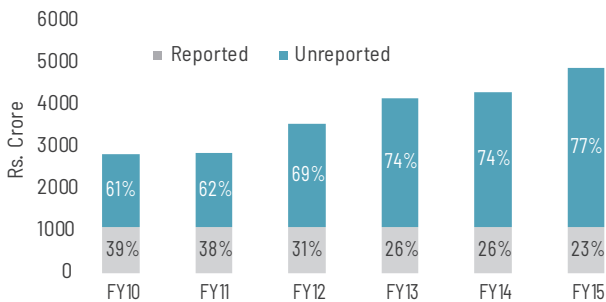


4

# GUJARAT

## 2 Significant subsidy not reported

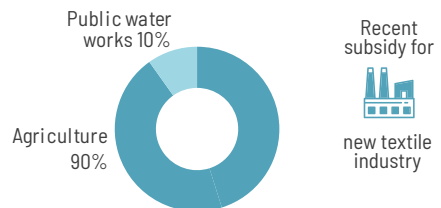
- Comptroller Auditor General finding : subsidy at Rs. 3,000-5,000 Crore
- Regulatory reporting : subsidy at Rs. 1,100 Crore



Agricultural fuel surcharge 45% = Agricultural tariff 45%

Subsidy for tariff comparable to subsidy for fuel surcharge of agricultural consumers!

## 1 Break-up of subsidy in FY15

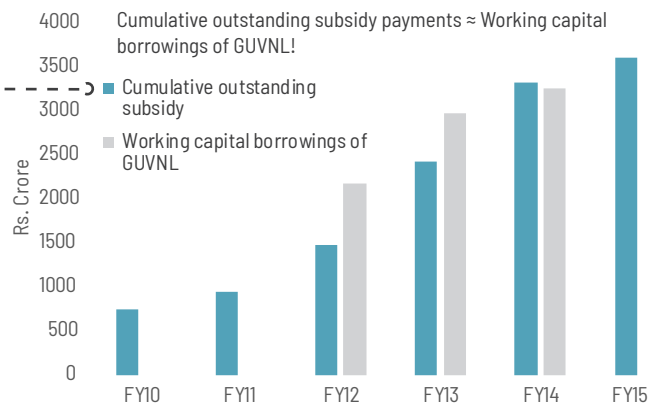


## 3 No incentive for metering

- Regulatory tariff for unmetered agricultural consumers is Rs. 1.4/unit
- But unmetered tariff to the farmer after government subsidy is 0.4-0.5/unit
- This is equivalent to metered tariff of Rs. 0.6/unit
- Government subsidy disincentivising metering**

Not clear if interest costs of pending subsidy are passed on to consumers?

## 4 Pending subsidy payments



No regulatory accountability for unreported subsidy and pending payments from the government!

# 1 Categories receiving subsidy



small & medium

Subsidy at ~30% of tariff for new units for 3 years from release of power connection

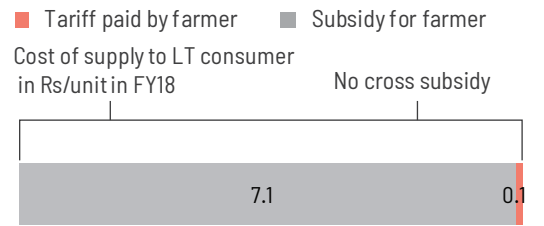


Subsidy at Rs. 677 Crore for consumption less than 150 units a month



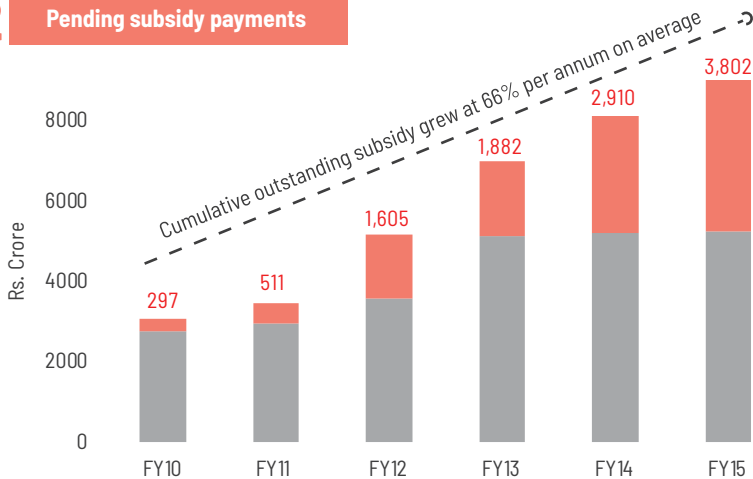
Subsidy to agriculture: Rs. 6550 Crore, 91% of total government subsidy and 26% of aggregate revenue requirement!

# HARYANA



**Negligible cross subsidy** in overall tariff design!

# 2 Pending subsidy payments



Pending subsidy strains working capital requirement of DISCOMs

- Cumulative outstanding subsidy at the end of financial year including interest from previous years
- Subsidy released by the state government for the given year

**Persistent delay in subsidy payments, yet increasing subsidy commitments by the government**

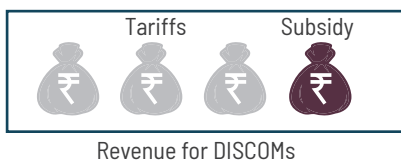
» Government may be unable to fulfil commitment

# PUNJAB

Subsidies play a crucial role

- 3/5th of sales to domestic & agriculture
- Industrial sales falling ↓
- Distribution utility in financial distress : outstanding liabilities > Rs. 20,800 Crore

# 1 How high is it?



25% of total revenue

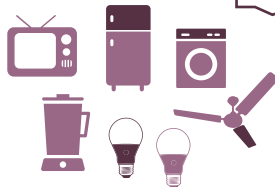
> Rs. 8,000 Crore in FY19 (and growing at 9% per annum)

Equivalent to **three year budget** for Ujjwala Yojana, a centrally sponsored LPG connection programme

# 2 Who gets the subsidies?



**Free power to farmers** ~30% of sales, mostly unmetered. » **70% of total subsidy**



Up to 200 units and 1000 Watts

**Free power to Scheduled Caste, Backward Caste and BPL homes** » **14% of total subsidy**



Subsidised power for industrial consumers since FY18. Caps energy charge @ **Rs.4.99/unit** » **16% of total subsidy**

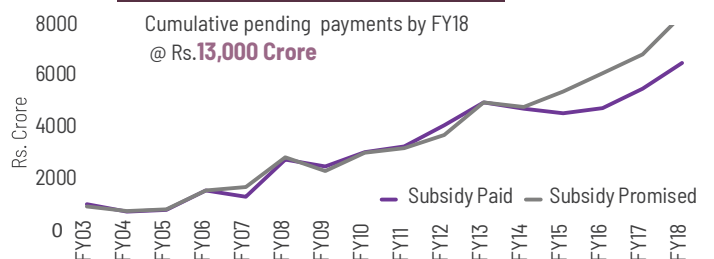
# 3 Good Practice by Regulatory Commission

- Scrutiny of subsidy promised, paid for each category
- Quarterly reporting of subsidy paid
- Subsidy commitment calculated: Annual subsidy + Pending payment + interest

» **Regulatory Practice is commendable, should be adopted by other states**

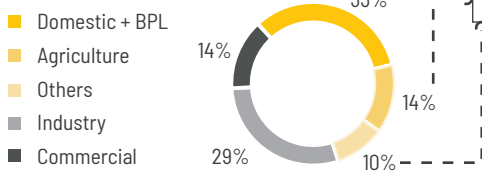
» **Political commitment essential for timely payments**

# 4 Yet... delays persist!



# TAMIL NADU

## 1 Sales mix in FY18

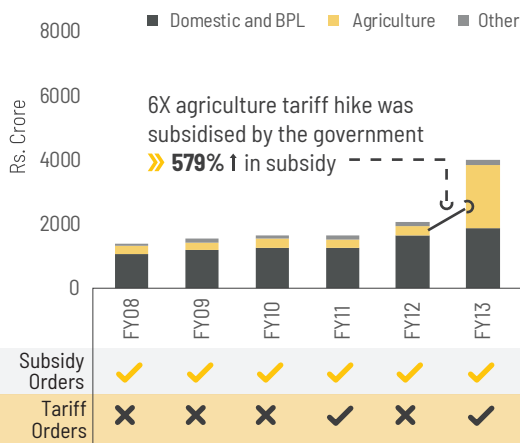


FY18 Subsidy promised: ~Rs. 7,700 Crore

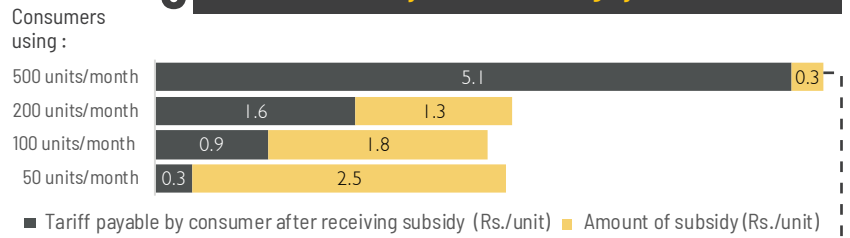


Agriculture and BPL consumers are **unmetered** and receive **free** supply

## 2 Subsidy promised



## 3 Effect of subsidy on domestic category tariffs in FY18



50 units/month **FREE** for all domestic consumers. Even for > 500 units/month!

FY16 was an election year  
 >> **48% ↑** in domestic subsidy without a corresponding change in sales or tariff

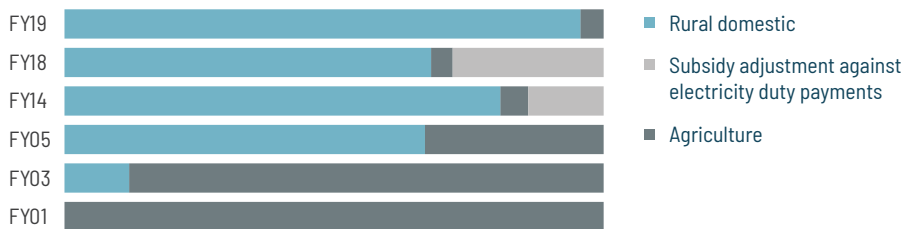
## 4 Regulatory accountability

**Regular subsidy orders** with category-wise subsidy promised + payment schedules

**No regular true-up** of actual subsidy payments >> reduces accountability for delayed payments

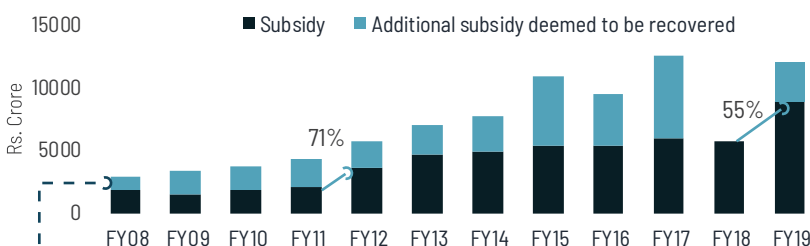
# UTTAR PRADESH

## 2 Subsidy allocation



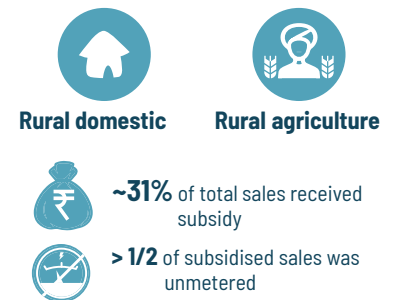
**Agriculture** subsidy used to cover entire difference between cost of supply and tariff in initial years but has reduced to **4%** in FY19

## 3 Subsidy commitment has seen slow growth except in election years

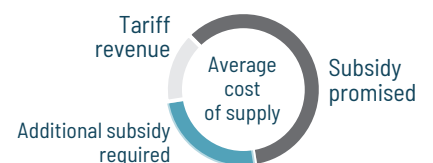


Since FY08, UPERC has approved **additional subsidy deemed to be recovered** from state governments to cover cost of supply

## 1 Major categories subsidised in FY18



## 4 No cross subsidy in UPERC tariff design for subsidised categories



## 5 But is additional subsidy being paid?

**Not likely!**

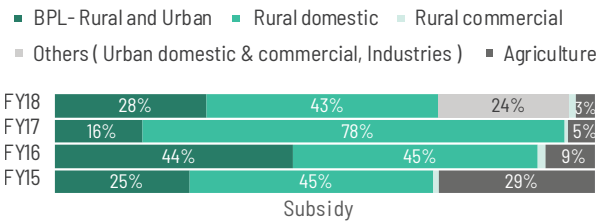
~Rs.46,000 Crore outstanding with carrying cost @ 10.85%  
 This is ~86% of UDAY debt takeover in 2015

# BIHAR

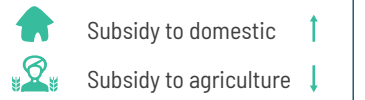
## 1 Subsidy allocation

Average subsidy provided in last 6 years - Rs. 3,278 Crore which formed 56% of the DISCOMs' revenue requirement

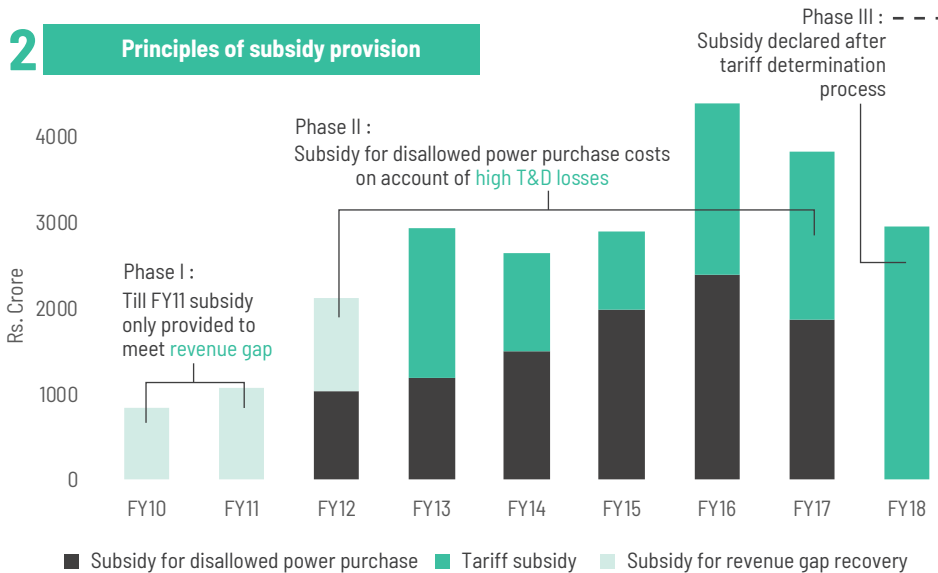
It was 73% in FY13!



BPL+ Rural domestic sales ↑ from 22% in FY15 electrification 38% in FY18



## 2 Principles of subsidy provision



Subsidy announcement not part of tariff process >> less accountability for final tariff!

Tariff shock even after subsidy for all consumers >> Rural domestic tariff ↑ by 29%

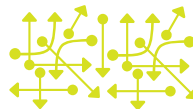
Subsidy contribution to net revenue requirement reduced by more than half!

Previous good transparency and accountability practices lost:

	Reported till FY18	FY18	FY19
Subsidy promised	✓	✗	✗
Subsidy paid	✓	✓	-

Regulatory mandate to charge unsubsidised tariff in case of delayed subsidy payment:  
 >> Infeasible - will lead to 60% to 400% tariff shock!  
 >> DISCOM finances are likely to suffer

# COMMENTARY



Subsidy is a vexed issue with multiple dimensions

## 1 Limited information on key parameters

### Information available in central / state government and regulatory documents

Parameter (Rs. Crore)	Bihar	Gujarat	Haryana	Punjab	Tamil Nadu	U P
Subsidy promised	✓	✓	✓	✓	✓	✓
Subsidy paid	✓	✓	✓	✓	✓	✓
Outstanding/Pending payment	□	□	✓	✓	□	□
Interest payments due to delay	□	□	□	✓	□	□
Category-wise subsidy	✓	✓	✓	✓	✓	✓

### Some ideas to address this:

- Regulatory Commissions: mandate public reporting of category-wise subsidy and delays
- Forum of Regulators: publish model formats to aid this
- Ministry of Power: publish annual report on subsidies
- Amend E Act: to ensure reporting (similar to Section 59)

## 2 Limited accountability for delays

### Delays persist despite mandates:

> ↓ political commitment & accountability

### Charging regulated tariffs to address delay:

- > tariff shock, politically infeasible
- > thus, DISCOMs bear financial brunt of delays

### Some ideas to address this:

- Regulatory Commissions & State Governments: Subsidy commitment to include pending payments + interest
- Ministry of Power (MoP): Track delays on UDAY portal
- Reserve Bank of India & MoP: Track DISCOM borrowing, ↑ pressure for timely payments



## 3 Need to rationalise, target subsidies

- > Despite mandates, subsidies ↑
- > Even high end domestic consumers & industries get subsidy

### Some ideas to address this:

- Gradual, phase-wise inflation linked tariffs ↑ for subsidised consumers
- More pilots for Direct Benefit Transfer, bulk efficient appliance procurement for newly electrified homes



Need for calibrated, phase-wise approach which pays attention to state level details

Without such efforts, subsidy commitments and delays will increase leaving DISCOMs to face a crisis unmanageable in scale

## About Prayas

Prayas (Initiatives in Health, Energy, Learning and Parenthood) is a non-governmental, non-profit organisation based in Pune, India. Members of Prayas are professionals working to protect and promote public interest in general, and interests of the disadvantaged sections of society, in particular. Prayas (Energy Group) works on theoretical, conceptual, regulatory and policy issues in the energy and electricity sectors. Our activities cover research and engagement in policy and regulatory areas, as well as training, awareness, and support to civil society organisations. Prayas (Energy Group) has contributed in the development of energy sector policy as part of several official committees constituted by ministries, the erstwhile Planning Commission and NITI Aayog. Prayas is registered as SIRO (Scientific and Industrial Research Organization) with the Department of Scientific and Industrial Research, Ministry of Science and Technology, Government of India.

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We would like to thank Daljit Singh, Centre for Energy, Environment & Resources (CEER), Akhilesh Magal, Gujarat Energy Research and Management Institute (GERMI) and our colleagues at Prayas, particularly Ashwini Chitnis, Shantanu Dixit, and Shilpa Kelkar for their keen observations, advice and assistance.

We are grateful to Shakti Sustainable Energy Foundation for its support. The Shakti Sustainable Energy Foundation works to strengthen the energy security of India by aiding the design and implementation of policies that support energy efficiency and renewable energy. The views/analysis expressed in this report/document do not necessarily reflect the views of Shakti Sustainable Energy Foundation. The foundation also does not guarantee the accuracy of any data included in this publication, nor does it accept responsibility for the consequences of its use.

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**Printing:** Mudra, 383 Narayan Peth, Pune. Email: [mudraoffset@gmail.com](mailto:mudraoffset@gmail.com)

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For other visualization of major power sector related trends and IoT metering based projects of Prayas (Energy Group), please see:

1. Renewable Energy Data Portal  
<http://prayaspune.org/peg/re>
2. Website for the Electricity Supply Monitoring Initiative (ESMI)  
<https://www.watchyourpower.org/index.php>
3. Website for the Monitoring and Analysis of Residential Electricity Consumption (eMarc) Initiative  
<http://emarc.watchyourpower.org/>

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