The Union government is considering a unique initiative to let defaulting state government departments clear their outstanding dues to power distribution companies (discoms) through a dozen monthly installments.

Background

- The move comes in the backdrop of worsening financial health of discoms, who in turn have delayed payments to generation utilities. State government departments have the lion’s share of the total dues totalling Rs.82,073 crore.

- The issue of repaying dues through 12 equated monthly instalments (EMI) was discussed at a review planning and monitoring (RPM) meeting of the power ministry with states earlier this month.

- It comes in the backdrop of the Rs. 2.86 trillion plan for India’s most ambitious power distribution reform scheme, tentatively named Atal Distribution System Improvement Yojana after former prime minister late Atal Bihari Vajpayee.

What led to the move?

- Government department dues getting delayed lead to cash losses of discoms, even though these get accrued as booked income. However, this causes problem in cash flow management in discoms, increases the requirements of working capital and leads to delay in payment of gencos (power generation companies).

- Therefore, such delays on part of one state have repercussions on the
Discoms debt trouble and efforts made towards alleviation

- Discoms are the weakest link in the electricity value chain, plagued by

  1. low collection,
  2. higher power purchase cost,
  3. inadequate tariff hikes and subsidy disbursement, and
  4. mounting dues from government departments.

- In an attempt to ensure timely payments by states to generation utilities, the government has already made it mandatory for state discoms to offer letters of credit (LC) as part of the payment security mechanisms in power purchase agreements. However, while the states have offered LCs, their old arrears are still pending.

- In poor financial health, discoms have delayed payments to gencos even as the Centre steps up efforts to supply round-the-clock power to all. The inability of discoms to make payments has also added to the pain in the banking sector as power developers are facing difficulties to service their debt. The backlog of dues owed by discoms to gencos are as high as 913 days.

- The push for state government departments to clear their dues comes in tandem with the finance ministry’s proposed plans to withhold permission to defaulting states to borrow to the extent of electricity losses not funded by their respective governments.

- Plans to trim debt of discoms and pare their losses may feature in the forthcoming Union budget slated for 1 February.