OPINION: Lockdown and the power equation

Considering that lockdowns would be the new normal in the near future, digitising operations—metering, billing and collection—is the key for DISCOMs to sustain in the long run.

- June 24, 2020, 07:42 IST
-

New Delhi: The advent of the novel coronavirus (COVID-19) pandemic had forced India to resort to a lockdown. To contain the spread of COVID-19, nationwide lockdown had been announced in phases since 24 March. This has adversely affected the power sector, hitting the demand and collection, and hence, the financial health of distribution companies (DISCOMs). Prior to the lockdown, India recorded a peak demand of 170 GW on 3 March, which declined steeply to 115 GW (a reduction of 55 GW) on 27 March, after the lockdown began. This can be attributed to the closure of most industries and commercial establishments—including the railways—during the lockdown. These consumer categories account for 50% of the overall demand at the national level. As such, this has a significant influence on peak demand.

As the lockdown restrictions are being eased with business activities resuming, DISCOMs need to assess the impact of lockdown and strategise to cope with such eventualities in the long-run.

State Saga

Like most states, Karnataka has also borne the impact of the nationwide lockdown. The state witnessed a reduction in the peak demand from 1.29 GW (before the lockdown) to 1.06 GW (during the lockdown). The state's energy demand has also taken a hit due to the lockdown.

Karnataka's annual electricity consumption (by 258 lakh consumers) in FY 2019-20 was around 59,396 MU. Of this, industrial and commercial consumers accounted for 18% (10455MU), and 12% (7178MU), respectively. The annual revenue from the commercial and industrial (C&I) category is estimated to be INR 16,470 crores. During the lockdown period, the DISCOMs in Karnataka are estimated to have lost a revenue of INR 2,600 crores.

The C&I consumers also generate additional revenue for DISCOMs via the cross-subsidy charges levied on them. Cross-subsidy is a mechanism where a consumer category pays a tariff that is higher than the actual cost incurred by DISCOMs in supplying power to it. The revenue earned by levying a higher tariff is utilised for supplying power to a set of consumers below poverty line at subsidised rates. A decline in energy consumption by C&I consumers would also mean a loss of revenue worth INR 380 crores, which is generated via cross-subsidy.

Reduction in Revenue

Under the lockdown, DISCOMs' revenue is also impacted by billing and collection issues. The meter readers have been advised to not visit the consumer premises for recording meter readings during the lockdown. This has been done to ensure the safety of both— the meter readers and the consumers. DISCOMs are, therefore, generating bills through estimation, done on the basis of average consumption or previous month's bills. This process might not be very effective, since the DISCOMs in Karnataka collect revenue primarily through cash counters, which are presently closed. The online payment channels of DISCOMs too, are not operating optimally yet (especially outside the town limits), as most consumers still opt for manual payments. DISCOMs are, thus, bound to encounter poor revenue collection, leading to mounting losses.

According to the PRAAPTI (Payment Ratification and Analysis in Power Procurement for bringing Transparency in Invoicing of Generators) dashboard, Karnataka DISCOMs have a liability of INR 6,128 crores, as outstanding payment to generators in January 2020. This situation could aggravate further due to the reduction in revenue during the lockdown.

Taking note of the problems faced by DISCOMs, and the resultant delay in payments made to generation companies by them, the Ministry of Power (MoP), on 28 March 2020 issued directions to provide a moratorium of three months to DISCOMs to make payments, and to not levy penal rates on late payments. Although this would help DISCOMs in maintaining liquidity for three months, post lockdown, they will have to take stringent measures to improve their financial condition.

Way Forward

Since DISCOMs are already in financial trouble due to high aggregate technical and commercial (AT&C) losses, issues with billing and collection will certainly worsen their financial health. Therefore, DISCOMs need to focus on increasing the cash inflow through online services and channels, to remain financially viable. They can collaborate with online payment agencies to provide rebate on online payments. This would also motivate consumers to opt for online modes of payment.

Finally, DISCOMs need to focus on expediting the installation of smart meters on a large scale. Smart meters can help DISCOMs in reducing their AT&C losses by detecting theft and meter-tampering cases. They can ensure reliable operations in this unprecedented situation through accurate remote billing of electricity consumption, eliminating errors in billing, and cutting the manual meter-reading cost. Also, the remote-disconnection feature of smart meters can enable DISCOMs to promote the prepaid mechanism for bill payment, to avoid problems related to non-payment and/or delayed payment. They can even evaluate power quality through real-time data and improve consumer satisfaction. Hence, DISCOMs need to take proactive steps for installation of smart meters to reduce the AT&C losses, and their financial standing.

Considering that lockdowns would be the new normal in the near future, digitising operations—metering, billing and collection—is the key for DISCOMs to sustain in the long run.