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FINANCIAL RESTRUCTURING PLAN - RAJASTHAN DISCOMS

(STATE ELECTRICITY DISTRIBUTION COMPANIES) - JOURNEY TOWARDS TURNAROUND

Ashok Kumar Jain*

ABSTRACT

This is a study of various Financial Restructuring Plans -prepared for facilitating turnaround of Rajasthan Power Distribution Companies (State Discoms). Its object is to identify reasons for their failure to financially improve to accomplish the break even. Financial Restructuring Plan (FRP) is an action Plan aimed at turning around the Power Distribution Companies, that sets out targets for various parameters viz distribution loss trajectory, average retail tariff increase, growth in consumers(including cap on release of agriculture consumers) and energy sales, return on equity, investment and financing plan ,reform transitional period (turn around period) along with requirements from the Power Companies, the Govt. of Rajasthan (GoR) and also the Govt. of India (GoI) in case it is involved in the formulation of the plan.

KEYWORDS: *FRP, Power Distribution Company (Discom), Distribution Loss, Return on Equity.*

Introduction

Financial Restructuring Plan (FRP) is thus a dynamic document which derives its shape from the underlying premises taken for the reform transition period. It would need to be reworked from time to time, as and when, actual performance found to be at variance from the assumed scenario. It is thus a sort of ongoing plan. On March 21, 2000, GOR approved the provisional FRP of the State Power sector, same was finalized in August, 03. It was then revised in November,05 (first updation), then came the second updation in November- December, 11. Same was further revised in June,13 in an attempt to align the FRP (Nov.- Dec.,11) with the provisions of Central FRP,as formulated and approved by GOI in October,12. UDAY (Ujjawal Discom Assurance Yojna), a scheme for the financial turnaround of the Discoms approved by GOI in November,15, is the latest manifestation in this direction. Based on the approved provisional FRP (March, 2000), the Rajasthan Power Sector Reforms Transfer Scheme-2000 (Provisional Transfer Scheme) was notified on July 19, 2000. This led to restructuring the vertically integrated Rajasthan State Electricity Board (RSEB) in to following five successor companies for generation, transmission & distribution functions earlier performed by monolithic RSEB:

- Rajasthan Rajya Vidyut Utpadan Nigam Limited (RVUN),
- Rajasthan Rajya Vidyut Prasaran Nigam Limited (RVPN),
- Jaipur Vidyut Vitran Nigam Limited (Jaipur Discom) for electricity distribution in Alwar, Bharatpur, Dausa, Jaipur City, Jaipur District, Jhalawar, Kota, and Sawai madhopur Circles.
- Ajmer Vidyut Vitran Nigam Limited (Ajmer Discom) for electricity distribution in Ajmer, Banswara, Bhilwara, Chittorgarh, Jhunjhunu, Nagaur, Sikar and Udaipur Circles.
- Jodhpur Vidyut Vitran Nigam Limited (Jodhpur Discom) for electricity distribution in Barmer, Bikaner, Churu, Hanumangarh, Jodhpur City, Jodhpur District, Pali and Sriganganagar Circles.

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* Research Scholar, Department of Accountancy and Business Statistics (ABST), University of Rajasthan, Jaipur, Rajasthan, India.

FRP August, 2003

Provisional FRP (March, 2000) as finalised by Govt. of Rajasthan (GoR) in August, 03 envisaged turnaround of Discoms in FY 06-07 with Govt. subsidy. The financial projections of the sector (Generation, Transmission and Distribution Companies) were drawn upto FY 06-07. Rapid developments took place in the Power Sector viz Introduction of ABT (Availability Based Tariff), Enactment of Electricity Act,03 and National Tariff policy required to be prescribed as per the Electricity Act. Inspite of the fact that GoR extended financial support to Power Sector to its best, still the Discoms could not meet the loss reduction targets thereby failing to achieve the break –even as envisaged due to following unforeseen changes in the scenario:

- Failure of GoR to provide the committed support of Rs 200 Cr p. a. during FY 2000-01 and FY 01-02,
- T&D Loss reduction being lower than expected in FY 01-02 & FY 02-03 due to deterioration in consumer mix and increased supply hours to agriculture consumers owing to drought conditions in the state during the period.
- Inadequate rains in FY 01-02 & FY 02-03 resulted in substantial increase in power purchase cost as cheaper hydel power contemplated in the approved FRP had to be substituted with costlier thermal and nuclear sources from Central sector stations. This led to significant increase in the revenue deficit of the Discoms.
- Waiver of minimum charges for agriculture consumers owing to recurring drought w.e.f. October, 02,
- Surge in short term borrowings to the extent of 1600 Cr (equivalent to 80% of the increase in revenue deficit of the Discoms) and
- The average tariff increase of 12% assumed in FRP for FY 04-05 for the full year, could only take place from January, 05 and consequently the financial losses for FY 04-05 turned out to be more than estimated therein.

FRP November, 2005 (First Updation)

The Stake holders viz the Discoms and the State Govt. agreed that FRP being a dynamic document needed to be updated with the changes taking place in the sector. In the changed circumstances, it was felt to review the assumptions taken in the FRP so as to update it. This led to revision in the turnaround plan as the power companies needed more time. Following changes related to Agriculture connections, Domestic connections and structure of the industry had significant impact on FRP.

- Agriculture policy revised to release all pending agriculture connections over a period of three years i.e. by the end of FY 06-07,
- Increased assured hours of supply from 6 hours to8 hours from October,03 onwards,
- Accelerated release of rural domestic consumers under “Electricity to all by 2012” programme,
- Gradual increase in supply hours to rural domestic consumers,
- Change in industry structure from single-buyer (RVPN- the transmission Company) to multi-buyer (direct contracting by Discoms) resulting in separation of trading function from RVPN,
- Impact of open access regime in phased manner and immediate impact of shift by high value consumers to Captive use.

This updated FRP document was prepared after extensive deliberations with the Stakeholders i.e. Power companies & GoR. This document contained financial projections of the companies up to FY 11-12, commitments from them in the form of business plan and the reform transition period support from GoR.

The turnaround strategy for the sector in the FRP was based on following four key drivers:

- **Customer Focus**: Provide quality supply and service at competitive price through efficiency improvement,
- **Tariff Rationalization**: Move to cover cost to serve and link tariff to quality & service,
- **Institutional Reforms**: Institutional capacity building in power sector companies, encouraging Public Private Partnership (PPP)
- **Sustainability of Environment:** Encourage use of electricity in rural areas and composite linkages between policies for irrigation, industrial development, power etc.

Turnaround Scenario of the Discoms envisaged in this FRP was as under:

Discom	Turnaround Envisaged in the Year	
	With Subsidy	Without Subsidy
Jaipur	FY 06-07	FY 08-09
Ajmer	FY 08-09	FY 10-11
Jodhpur	FY08-09	FY 11-12

FRP November-December, 2011 (Second Updation)

Following significant changes in the business drivers and deviations from the assumptions made in the last updation (FRP November, 05) entailed a review of the business plan assumptions.

- Increase in number of agriculture connections released and increase in number of hours of supply in rural areas subsequent to Feeder Renovation Program implementation
- Increase in pooled power purchase cost due to increased proportion of short term power procurement at higher rate during FY 08-09 & FY 09-10
- No tariff revision took place after FY 04-05 and also not allowing the pass through of Power purchase cost escalation through Fuel Surcharge formula.
- Migration of large number of industrial consumers to Open Access adversely affected the surplus generated from subsidizing consumers
- Increased revenue deficit due to above reasons required additional short term borrowings adding to increased debt service burden

First point had an adverse bearing on achievement of loss reduction targets resulting in purchase of more power. This, in turn, increased the already aggravated revenue deficit due to above last three factors. In this FRP, financial projections of the Discom were drawn upto FY 2021-22.

Strategy for Discoms

Following line of action was contemplated in the revised updated FRP (Second updation)

- Restructuring of the existing short term borrowings to reduce debt service burden in next 5 years (around Rs.25,000 Cr. in October, 2011).
- Filing petition with RERC for recovery of Fuel Cost Adjustment Charges from consumer categories to off-set effect of increase in Power Purchase cost
- Tariff rationalization to improve the cost recovery and 50% increase in retail tariff required in next 5 years
- Effective management of power procurement and trading of surplus energy
- Accelerated loss reduction through managerial and operational efficiency – achieving distribution loss level of 15% by FY 21-22
- Demand side management – DSM and energy efficiency initiatives like Agriculture DSM, CFL, Energy Efficient Buildings, Clean Development Mechanism (CDM) initiatives, etc.
- Rationalization of power supply to reduce the short term procurement
- Explore private sector participation in loss making areas through input base franchisees

Commitment from GoR

- Increase in cash subsidy from Rs.400 Cr per annum to ease the financial position of the Discoms in the interim,
- Increase in Electricity Duty (ED) rate for all consumer categories and allow the Discoms also to retain incremental ED as well,
- Allow Discoms to file tariff petition for retail tariff increase,
- Administrative support to theft prevention activities
- Ensure the timely payment of Government Department electricity dues
- Support to Discoms in negotiating restructuring of the short term borrowings

The GOR in the memorandum of Undertaking (MoU) signed with Discoms on 26th October,09, considered the revenue deficit of the latter up to FY08-09 (Rs.15643Cr) and waiver of minimum charges to agriculture consumers(Rs.729.50 Cr) as its own liability and agreed to reimburse the same in the manner specified as cash support

Conversion of Short Terms Loans

- Short term loan outstanding as at November 1, 2011 converted into long term loan with moratorium on repayments upto October 31, 2013
- An additional 1% premium on prevailing interest rate has been considered for the loans converted into long term
- Converted long term loans are considered to be serviced beginning November 1, 2013
- Moratorium on repayments for all long term loan from commercial banks up to October 31, 2013
- Assessment of additional working capital borrowings based on the cash requirements to meet net revenue gap for FY 11-12 and FY 12-13

Restructuring of Short Term Loans by Issue of Bond

- Outstanding short term loan along with the interest over due as on March 31, 2013 has been considered to be issued as bonds bearing interest rate of 11% per annum;
- Bond issue has been spread over three tranches at the beginning of FY 13-14, FY 14-15 and FY 15-16;
- The bond shall have an interest and repayment moratorium of 5 years with interest during moratorium period getting added to principal;
- The repayment shall be done in 10 installments beginning in FY 18-19; the Discoms would retain a call option for early redemption;

All the three Discoms were estimated to turnaround in FY 15-16 with subsidy and in FY 16-17 without subsidy under the FRP in question.

FRP June, 2013

As the financial position of Discoms in several other states like Uttar Pradesh, Haryana, Punjab, Madhya Pradesh, etc was also deteriorating, the Government of India constituted a High Level Expert Group under Chairmanship of Sh. B.K. Chaturvedi, the then Member, Planning Commission to recommend an action plan for bail out of state Discoms from impending financial crisis. Based on the recommendations of the Expert group, the Ministry of Power, Government of India (MoP, GoI), issued the Central Financial Restructuring scheme on October 5, 2012. Thus, there arose a need to recast the Rajasthan FRP November-December 2011 to align it with the Central FRP scheme.

Main features of the Financial Restructuring Plan issued by the MoP, GoI

- 50% of the outstanding short term liabilities (STL) as on 31st March, 12 to be taken over in phased manner by the State Govt. after issue of bonds by the Discoms(cutoff date for issue of bonds 1st July, 2013), however interest liability to vest with the State Govt. from 1st April 2012 onwards.
- Balance 50% of outstanding STL to be restructured by providing a moratorium on principal for 3 years and repayment in equal installments to be made in 7 years thereafter.
- For monitoring the progress made by the Discoms in turnaround strategy, Central and State level Monitoring Committees (CLMC/ SLMC) constituted.
- Central Govt. guidelines for providing support through Transitional Finance Mechanism (TFM):
    - Providing incentive by way of grant equal to the value of the additional energy saved by way of accelerated AT&C loss reduction i.e. reduction beyond 3% annually for utilities with AT&C losses above 30% and reduction beyond 1.5% annually for utilities with AT&C losses below 30% (Base year for AT&C losses-FY 10-11). The eligibility of incentive would arise only if the gap between ACS and ARR for the year has been reduced during the year by at least 25% judged against the benchmark for FY 10-11.
    - Capital reimbursement support up to 25% of principal repayment made by State Government on the liability taken over by them under the scheme, subject to meeting of the mandatory conditions as specified in the Central scheme.

Discom wise projections brought out their turnaround scenario as under:

	Turnaround happening in	
	With Subsidy	**Without Subsidy**
JVVNL	FY 16-17	FY 17-18
AVVNL	FY 16-17	FY 16-17
Jd.VVNL	FY 16-17	FY 16-17

The Discoms as a whole was expected to break even in FY 16-17 without subsidy.

Evaluation of outcome consequent upon implementation of FRP (June, 2013)

The results obtained on various parameters vis -a -vis underlying objections are given below:

- **Distribution Loss Plan**

The loss reduction trajectory for the three years from FY 12-13 to FY 14-15 was designed keeping in mind incentive provided by the Central Government in form of matching grant for reduction in losses which has been computed on basis of the following distribution losses reduction plan as shown under assumptions:

Year	**Assumptions**	**Achievements**
	(Discoms as a Whole)	
12-13	17.90%	19.23%
13-14	16.30%	24.05%
14-15	14.70%	27.22%
15-16	14.00%	27.67%
16-17	13.70%	23.29%
17-18	13.50%	19.89% (pre actuals)
18-19	13.50%	
19-20	13.50%	
20-21	13.50%	
21-22	13.50%	

- **Average Tariff increase**

Year	**Assumptions**	**Actuals**
12-13	15%	18.58%
13-14	10%	13.70%
14-15	10%	16.88%
15-16	15%	9.59%
16-17	6%	0.00%
17-18	5%	0.00%
18-19	4%	0.00%
19-20	4%	
20-21	4%	
21-22	4%	

- **Revenue Deficit / (Surplus) (After Subsidy) Position of Discoms**

Year	**Assumptions**	**Actuals (Rs. in Cr)**
12-13	11100	12351
13-14	9856	15645
14-15	6847	12474
15-16	2327	11241
16-17	(2328)	4816
17-18	(4164)	2695(Estimated)
18-19	(5718)	
19-20	(7468)	
20-21	(9204)	
21-22	(10165)	

UDAY (Ujjwal Discom Assurance Yojana)

Govt. of India in November, 15 approved UDAY – a scheme for Financial Turnaround of State owned Power Distribution Companies (Discoms) with an object to improve the Operational & Financial performance of the companies. Outcome of the operational improvement of the Discoms is to be measured to following parameters:

- Reduction in AT&C loss to 15% in FY 18-19 as per the approved loss reduction trajectory and
- Reduction in gap between Average Cost of Supply (ACS) and Average Revenue Realized (ARR) to zero by FY 18-19.

The scheme provided for signing a tripartite agreement among Govt. of India, State govt. and the Discoms stipulating their responsibilities for achieving the Operational and Financial milestones as per the scheme. Suitable review mechanism was also provided at the level of Central and State Govts respectively through Central Level Monitoring Committee (CLMC) and State Level Monitoring Committee (SLMC) to ensure close monitoring of the progress on monthly basis. According to the scheme, the State Govt. shall take over 75% of the debt of the Discoms as on 30.9.15 as a mix of grant, loan or equity, over a period of two years – 50% of Discom debt in FY 15-16 and 25% of debt in 16-17. For amount transferred as loan, the interest rate payable by the Discoms to the GoR for the intervening period shall not exceed the rate of interest on the bonds issued by the State.

In response thereto, the State Govt. took over the debt of Discoms as under:

Outstanding debt of Rajasthan Discoms as on 30.9.15	Rs.80529.90 Cr
50% of debt taken over by GoR in FY 15-16	Rs.40049.77 Cr
25% of debt taken over by GoR in FY 16-17	Rs.22372.19 Cr
Total debt taken over(ii+iii)	Rs.62421.96 Cr

Said debt of Rs.62421.96 Cr was taken over by GoR under following heads:

Loan under UDAY scheme	Rs.44721.96 Cr
Equity	Rs.8700.00 Cr
Grant	Rs.9000.00 Cr
Total	Rs.62421.96 Cr

Out of loan under UDAY scheme amounting to Rs.44721.96 Cr, Rs.15000.00 Cr has been converted into Grant and Equity by GoR in FY 17-18 as under:

Equity	Rs.3000.00 Cr
Grant	Rs.12000.00 Cr
Total	Rs.15000.00 Cr
Balance loan under UDAY scheme to be converted in FY 18-19 & FY 19-20	Rs. 29721.96

Key assumptions and outcome there against

Tariff hike	2015-16	2016-17	2017-18	2018-19
Assumed	0%	10%	8%	0%
Actuals	9.59%	0%	0%	0%

Distribution Loss Trajectory

- **Jaipur Discom**

	2015-16	2016-17	2017-18	2018-19
Assumed	27.5%	22.0%	18.5%	15.0%
Actuals	31.90%	25.48%	20.10%	

(Pre-actuals)

- **Ajmer Discom**

	2015-16	2016-17	2017-18	2018-19
Assumed	23.5%	20.0%	17.5%	15.0%
Actuals	26.75%	22.10%	19.75%	

(Pre-actuals)

- **Jodhpur Discom**

	2015-16	2016-17	2017-18	2018-19
Assumed	22.0%	18.0%	16.5%	15.0%
Actuals	23.32%	21.69%	19.49%	

(Pre-actuals)

Revenue Deficit / (Surplus) with Subsidy

- **Jaipur Discom** (Rs Cr)

	2015-16	2016-17	2017-18	2018-19
Assumed	3725	1049	(237)	(252)
Actuals	4463	1737	434	

(Pre-actuals)

- **Ajmer Discom** (Rs Cr)

	2015-16	2016-17	2017-18	2018-19
Assumed	3181	571	(240)	(256)
Actuals	3504	1304	769	

(Pre-actuals)

- **Jodhpur Discom** (Rs Cr)

	2015-16	2016-17	2017-18	2018-19
Assumed	3314	575	(223)	(238)
Actuals	3274	1775	1491	

(Pre-actuals)

Here it was anticipated that all the State Discoms will turnaround in FY 17-18.

Gap/(Excess) between ACS and ARR

- **Jaipur Discom** (Rs/unit sold)

	2015-16	2016-17	2017-18	2018-19
Assumed	2.04	0.53	(0.11)	(0.11)
Actuals	2.50	0.89	0.19	

(Pre-actuals)

- **Ajmer Discom** (Rs/unit sold)

	2015-16	2016-17	2017-18	2018-19
Assumed	2.35	0.39	(0.15)	(0.15)
Actuals	3.16	3.09	1.24	

(Pre-actuals)

- **Jodhpur Discom** (Rs/unit sold)

	2015-16	2016-17	2017-18	2018-19
Assumed	1.98	0.32	(0.11)	(0.11)
Actuals	2.91	2.26	1.18	

(Pre-actuals)

Conclusion

While the FRP (Financial Restructuring Plan) has been a prudent document formulated with well thought premises quite appropriate in the face of state of affairs obtaining at the time of crafting the plan, but the State Govt. couldn't dissociate from meddling in the conduct of normal functions of the Discoms viz. tariff revision, loss reduction initiatives and evolving comprehensive agriculture connection release policy, as evident from the following:

- **Tariff Revision**

Electricity Act, 2003 mandates the Distribution Licensee (Power Utilities/Discoms) to file petition for revision of tariff for the next year with the State Regulatory Commission latest by 30th November every year. However, no tariff was revised in the period from FY 01-02 to FY 10-11 except one revision in FY 04-05 (w.e.f.01.01.05), for the want of filing tariff petition by the Discoms. APTEL decision dated 15th February, 2013 called upon the Distribution Licensees/ Discoms to compulsorily file tariff petition with the Appropriate Commission every year as per provisions of the Electricity Act otherwise the Commission will initiate suo-moto proceedings for the purpose. Consequent upon such binding directions by APTEL, the State Discoms started filing tariff petition every year and revision in electricity rates (tariff) took place every year from FY 11-12 to FY 15-16. Thereafter, despite yearly filing tariff petition on regular basis, the Discoms didn't seek revision in rates giving the logic that additional revenue as would have accrued as a result of tariff revision otherwise shall be compensated by the gain accomplished as a result of efficiency hike in the working. Since no significant improvement in efficiency was visible, corresponding easing out in revenue deficit didn't accrue. Apparently non filing of tariff petition / non seeking tariff revision was at the informal instance of the State Govt and constituted one of the reasons responsible for Discoms failing to turn around.

- **Distribution Losses**

Consequent upon implementation of Feeder Renovation Programme and other capital investments for strengthening the distribution system, there had been consistent distribution loss reduction from 42.22% (FY 05-06) to 19.23% (FY 12-13). But at the time of elections of State Assembly / Lok Sabha, vigilance efforts – bottom line for containing losses, are put on the back burner and owing to virtually no initiative to contain electricity theft due to assembly election in Rajasthan in November, 2013 and Lok Sabha election in 2014, there was a surge in distribution losses. And once the loss reduction trajectory is lost sight of, it takes time to bring back the programme on track. The distribution losses, as a result, increased to 24.05%,27.22%, and 27.67% respectively in FY 13-14, FY 14-15 and FY 15-16 before showing downward trend - 23.29% in FY 16-17 and 19.89% in FY 17-18. Now again with State Assembly election due in November,18 and Lok Sabha election in May,19, vigilance checking of consumers committing theft have been given goodbye. Under such circumstances, maintenance of distribution loss at existing level appears to be an uphill task, what to speak of the further loss reduction. Practice of keeping vigilance activities at bay in view of impending State Assembly / Lok Sabha elections to suit the electoral interest of ruling party poses dangerous hazard to Discoms in their effort to turn around.

- **Agriculture Connections Policy**

Almost in every FRP, need for rationalization of Agriculture connection release policy was flagged to reduce the number of such connections released yearly in view of depleting water table in the State but no such policy was ever firmed up for follow up. Every time, decision in this respect are taken to suit the interest of the party in power.

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