

# **CHAPTER–IV**

**Outcome of implementation of UDAY-  
pre and post UDAY performance of  
DISCOMs**



## CHAPTER-IV

### Outcome of implementation of UDAY- pre and post UDAY performance of DISCOMs

4.1 As discussed in Paragraph 1.2 of Chapter-I, UDAY Scheme envisaged financial and operational turnaround of DISCOMs. The outcome of implementation of UDAY Scheme in DISCOMs of Uttar Pradesh in terms of pre *vis-à-vis* post UDAY financial and operational performance of DISCOMs are discussed in the succeeding Paragraphs.

#### Pre and post-UDAY financial performance of DISCOMS

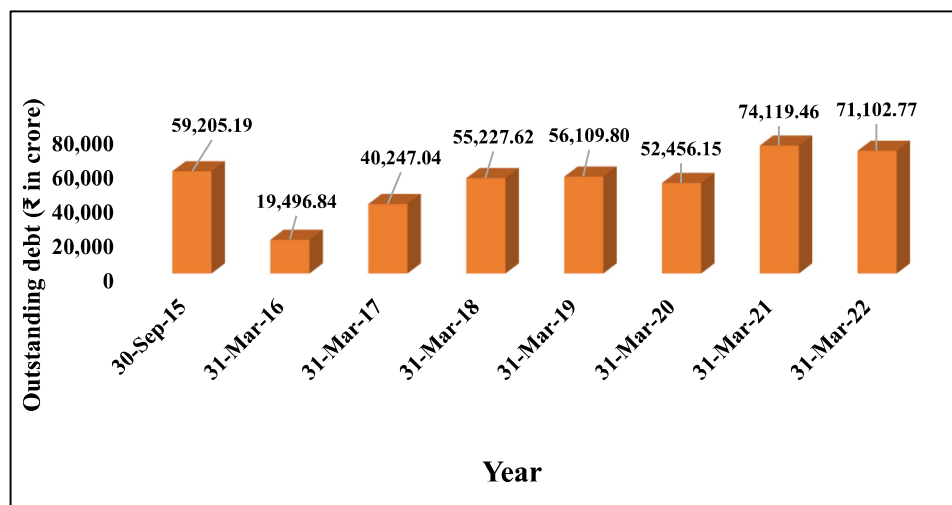
4.2 For financial turnaround of DISCOMs, UDAY Scheme provide a framework under which the debt and losses of DISCOMs would be taken over by GoUP in a graded manner. By the end of the implementation period (2019-20), it was envisaged that there would be improvement in the financial and operational efficiency of the State DISCOMs.

Audit reviewed the financial performance of DISCOMs pre and post UDAY and observed that financial health of DISCOMs did not improve after the implementation of the Scheme. The position of the major indicators of financial health, *i.e.* debts position and financial losses pre and post UDAY are discussed below:

#### *Position of outstanding Debt*

4.3 The pre-UDAY outstanding debt of DISCOMs was ₹ 59,205.19 crore<sup>1</sup> as on 30 September 2015. Out of this, 75 per cent debt amounting to ₹ 44,403.89 crore was taken over by GoUP up to June 2016. Hence, the effective debt of the DISCOMs became ₹ 14,801.30 crore. However, the DISCOMs' debt again reached to ₹ 52,456.15 crore at the time of closure of the Scheme on 31 March 2020. The financial position of DISCOMs subsequently further deteriorated during 2020-21 as the debt of DISCOMs increased to ₹ 74,119.46 crore as on 31 March 2021 and stood at ₹ 71,102.77 crore as on 31 March 2022. The year-wise debt position of DISCOMs is depicted in Chart 4.1 below:

Chart 4.1: Pre and Post UDAY position of debt of DISCOMs

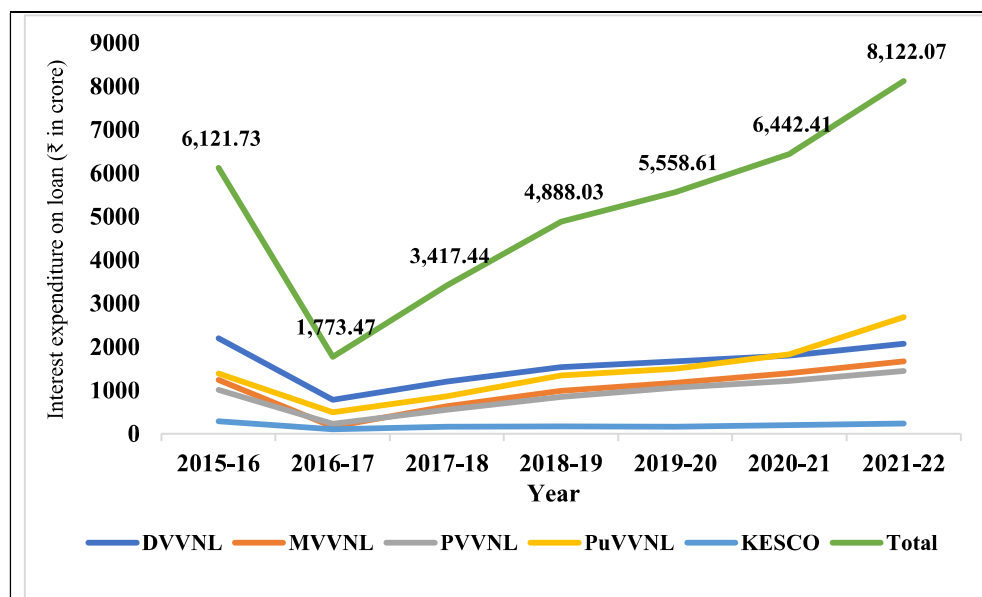


<sup>1</sup> Including bonds issued under Financial Restructuring Plan (FRP)-2012 prior to 30 September 2015 amounting to ₹ 5,270.13 crore.

It is evident from the above Chart that although the debt of DISCOMs decreased from ₹ 59,205.19 crore as on 30 September 2015 to ₹ 19,496.84 crore at the end of the year 2015-16 due to takeover of 75 per cent of the debt by GoUP, it again steeply rose by 169 per cent to reach at ₹ 52,456.15 crore by the end of the scheme in 2019-20 and by 265 per cent to reach at ₹ 71,102.77 crore at the end of 2021-22. Despite taking over of debt of ₹ 44,403.89 crore by GoUP, the debt again increased from ₹ 14,801.30 crore to ₹ 71,102.77 crore. Thus, in the absence of generation of sufficient internal resources due to failure in achievement of financial and operational efficiencies as envisaged under UDAY scheme, the DISCOMs could not reduce their debts.

Audit further observed that failure of the DISCOMs in reduction of debt burden contributed to increase in interest burden during the Scheme period. In March 2016, the interest burden of DISCOMs was ₹ 6,121.73 crore. Despite taking over of debt of DISCOMs of ₹ 44,403.89 crore by GoUP, the interest burden stood at ₹ 5,558.61 crore during 2019-20 which increased to ₹ 6,442.41 crore during 2020-21. The interest burden further rose to ₹ 8,122.07 crore during 2021-22. The year-wise interest expenditure of DISCOMs is depicted in **Chart 4.2** below:

Chart 4.2: Pre and Post UDAY position of interest expenditure of DISCOMs



It can be seen from the above Chart that sharp decrease in interest expenditure in 2016-17 was attributable to takeover of debts of DISCOMs by GoUP in March 2016 and June 2016. However, the interest expenditure has steadily increased from 2017-18 onwards mainly because of taking of loans for working capital requirements and issuance of bond for loss funding by UPPCL.

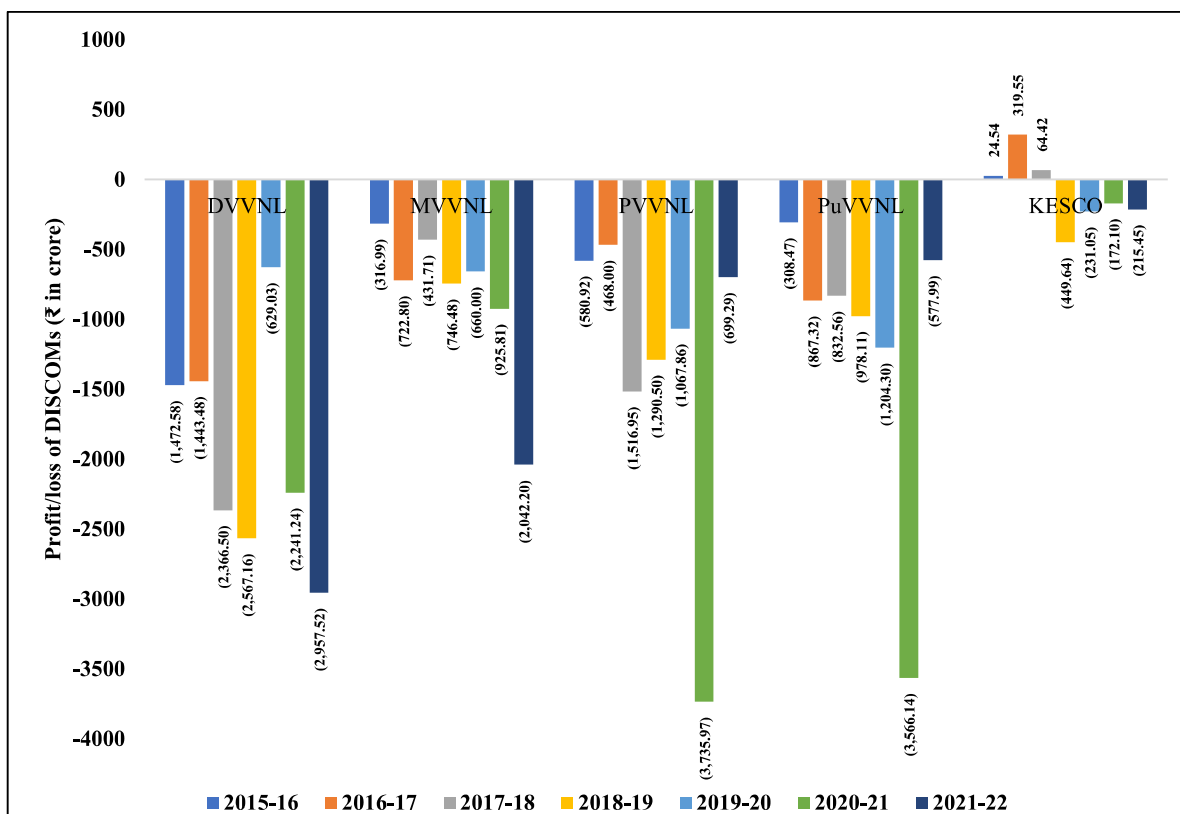
The Department stated in reply that financial burden of DISCOMs depend on its operational performance. The debts have been raised considerably since 2016, as DISCOMs have raised almost ₹ 20,000 crores by issuing bonds under UDAY policy, ₹ 32,840 crore under Atmanirbhar Bharat Scheme and ₹ 3,951.20 crore to meet its requirements.

The fact remains that despite takeover of 75 per cent of debt of DISCOMs by GoUP, the DISCOMs could not reduce their debts due to failure in achievement of financial and operational efficiencies as envisaged under UDAY scheme and they had to rely on external sources to meet their fund requirement.

### Position of Losses

4.4 The financial position of DISCOMs also did not improve during the Scheme period as financial losses of DISCOMs significantly increased from ₹ 2,654.42 crore as on 31 March 2016 to ₹ 3,792.24 crore as on 31 March 2020 which increased to ₹ 10,641.26 crore as on 31 March 2021. The financial losses of DISCOMs stood at ₹ 6,492.45 crore as on 31 March 2022. The DISCOM wise losses are depicted in **Chart 4.3** below:

**Chart 4.3: Pre and Post UDAY position of financial losses of DISCOMs**



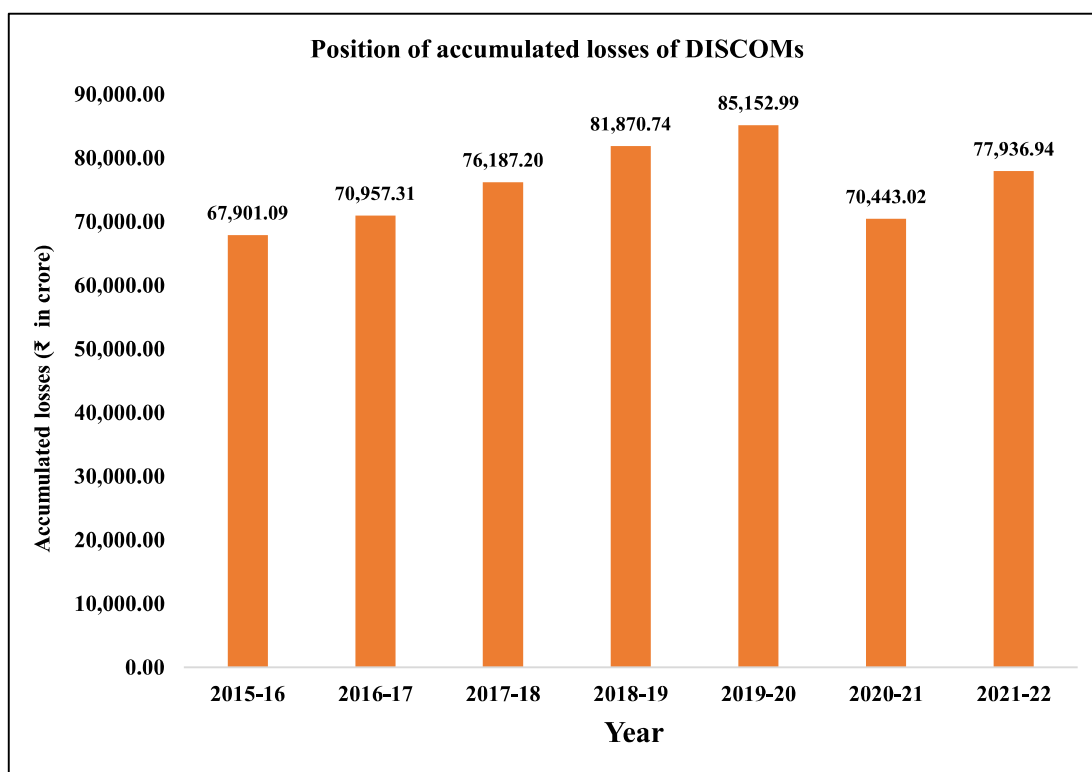
It is evident from the above that there was an increase in financial losses of the DISCOMs by ₹ 3,838.03 crore from March 2016 (pre-UDAY period) to March 2022 despite implementation of UDAY Scheme. The financial losses of DVVNL, PVVNL and PuVVNL increased significantly in 2020-21 compared to previous year mainly because of decrease in subsidy received from GoUP and increase in cost of power purchase. In the year 2021-22, the increase in financial losses of DVVNL and MVVNL compared to previous year was mainly attributable to higher provision for bad debts and decrease in losses of PVVNL and PuVVNL was on account of increase in receipt of subsidy from GoUP.

The reasons for increase in debt and losses of DISCOMs were mainly attributable to DISCOMs' failure in achieving operational targets set under UDAY Scheme (discussed in **Paragraphs 4.6 and 4.7**), adjustment of Government dues from UDAY grant against provisions of MoU, deferment of

revenue subsidy over a period of 10 years by GoUP etc. (discussed in **Paragraphs 2.4.3, 2.5.1 and 2.5.2**). Consequently, in order to meet fund deficit, DISCOMs had to avail working capital loan of ₹ 61,074.65 crore from Financial Institutions, which attracted interest burden of ₹ 18,751.99 crore during 2015-16 to 2022-23 (up to October 2022).

Further, due to the DISCOMs continuously remaining in red, their accumulated losses increased from ₹ 67,901.09 crore as on 31 March 2016 to ₹ 85,152.99 crore as on 31 March 2020. The accumulated losses of DISCOMs stood at ₹ 77,936.94 crore as on 31 March 2022. The year wise position of accumulated losses of DISCOM is depicted in **Chart 4.4** below:

**Chart 4.4: Pre and Post UDAY position of accumulated losses of DISCOMs**



Thus, the objective of financial turnaround could not be achieved by the DISCOMs even after implementation of the Scheme.

The Department stated in reply that all efforts were made to achieve the targets of UDAY scheme but due to some unavoidable factors targets could not be achieved. Due to reduction in distribution losses and increase in collection efficiency, AT&C losses have decreased to 30.02 *per cent* in 2019-20 from 39.86 *per cent* in 2015-16.

The reply is not acceptable as DISCOMs failed to reduce their losses and achieve the objective of financial turnaround envisaged under UDAY due to reasons discussed above.

**Pre and post-UDAY operational performance of DISCOMs**

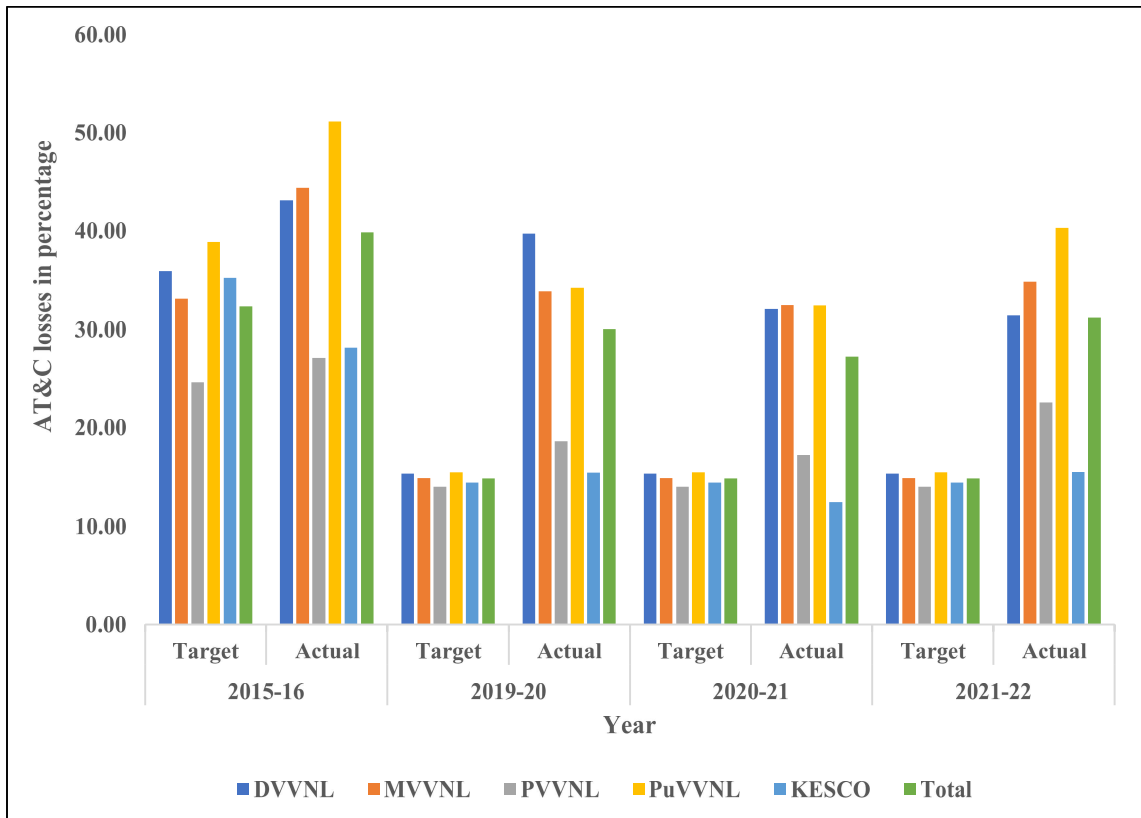
4.5 The intended objective of the operational activities in the Scheme was to improve operational efficiency of DISCOMs. The improvement in operational efficiency was to be measured through operational performance indicators, which were reduction in AT&C losses to 14.86 per cent and elimination of gap between ACS and ARR by 2019-20.

Audit reviewed the operational performance of DISCOMs pre and post UDAY and observed that operational health of DISCOMs did not improve after implementation of the Scheme. The position of the major indicators of operational health, i.e. AT&C loss and ACS-ARR gap pre and post UDAY are discussed below:

**Position of AT&C Losses**

4.6 AT&C losses of DISCOMs during pre-UDAY period (2015-16) stood at 39.86 per cent. However, during the scheme implementation period, none of the DISCOMs (except KESCO) could achieve the targets of AT&C loss reduction fixed under the MoU. In 2019-20, even KESCO failed to meet the loss reduction target. As a result, against the envisaged reduction in AT&C losses from pre-UDAY position of 39.86 per cent to 14.86 per cent, the AT&C losses of DISCOMs remained at high level of 30.02 per cent during 2019-20. Although, AT&C losses slightly decreased to 27.23 per cent in 2020-21 but again rose to 31.19 per cent in 2021-22. The DISCOM-wise position of pre-UDAY AT&C losses, target as per MoU and achievement there against are depicted in the Chart 4.5 below:

Chart 4.5: Pre and Post UDAY position of AT&C losses of DISCOMs



The main reasons for not achieving targeted level of AT&C losses were lower billing and collection efficiency as discussed in **Paragraph 3.4.2** and not carrying out related activities for reduction in AT&C losses viz. failure in installation of meter on unmetered connections, excessive number of defective meters, higher distribution losses, inadequate efforts in recovery of arrears from consumers, not recovering the dues against temporary disconnection and permanent disconnection cases, not realising the assessed amount in theft cases and recovery of fixed rates instead of tariff rate from departmental consumers as discussed in **Paragraphs 3.4.3** and **3.4.4**.

The Department stated in reply that uncontrollable events such as increase in rural consumer base due to launching of Saubhagya scheme in 2017, reduction in revenue collection on account of Railways & other industries shifting to open access, increase in supply for agricultural consumers and abolishing of regulatory surcharge by UPERC, pulled back the DISCOMs from achieving AT&C loss targets. Despite these adverse reasons, DISCOMs managed to record a significant and unprecedented reduction of 10 *per cent* in AT&C losses in UDAY Scheme period.

The fact remains that AT&C loss reduction targets as envisaged in UDAY Scheme could not be achieved by DISCOMs. Moreover, the AT&C losses after showing a declining trend up to 2020-21 again rose from 27.23 *per cent* in 2020-21 to 31.19 *per cent* in 2021-22.

#### ***Position of ACS-ARR gap***

4.7 ACS-ARR gap of DISCOMs during pre-UDAY (2015-16) was ₹ - 0.33 per unit, which increased to ₹ - 0.34 per unit at the end of UDAY period (2019-20) against the target of surplus of ₹ 0.06 per unit. The DISCOMs could not eliminate the ACS-ARR gap even in the year 2020-21 and 2021-22 as it rose to ₹ - 0.94 per unit and ₹ - 0.56 per unit respectively. Thus, none of the DISCOMs could achieve the target of eliminating ACS-ARR gap.

The reasons were mainly attributable to factors affecting the Average Cost of Supply viz. failure in reducing power purchase cost and expenditure incurred in excess of norms disallowed by UPERC and factors affecting Average Realisable Revenue as discussed in **Paragraphs 3.4.6** and **3.4.7**.

Thus, the objective of operational turnaround also could not be achieved by the DISCOMs.

The Department stated in reply that DISCOMs Revenue Assessment per unit of energy input increased from ₹ 4.09 per kWh in 2015-16 to ₹ 4.82 per kWh in 2019-20 and tariff subsidy support from State Government also increased from ₹ 0.70 per kWh in 2015-16 to ₹ 0.90 per kWh in 2019-20 despite uncontrollable events such as increase in rural consumer base due to launching of Saubhagya scheme in 2017, reduction in revenue collection on account of Railways & other industries shifting to open access, increase in supply for agricultural consumers, abolishing of regulatory surcharge by UPERC and various disallowances by the UPERC in Tariff. Further, UP DISCOMs have been successful in reducing variable power purchase cost but fixed charges have increased with commissioning of new power plants which were tied-up before signing of UDAY MoU.

The reply is not acceptable as the DISCOMS could not reduce average power purchase cost due to factors such as payment of late payment surcharge to



generators, incurring expenditure in excess of norms fixed by UPERC, unapproved power purchase etc. Further, revenue could not be optimised due to reasons such as failure in 100 *per cent* metering of unmetered connections, higher number of defective meters, recovery of fixed rate instead of tariff rate from departmental consumers, delay in filing of tariff petitions, non-revision of tariffs and failure in recovery of revenue arrears which increased from ₹ 35,843.27 crore in 2015-16 to ₹ 87,195.18 crore in 2021-22.



Lucknow  
The **9 June 2024**

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New Delhi  
The **12 JUN 2024**

(GIRISH CHANDRA MURMU)  
Comptroller and Auditor General of India