

## Rebuttal of the article “Big question: Is the UDAY data being cooked up?” appearing in the Financial express, April 10<sup>th</sup>, 2018

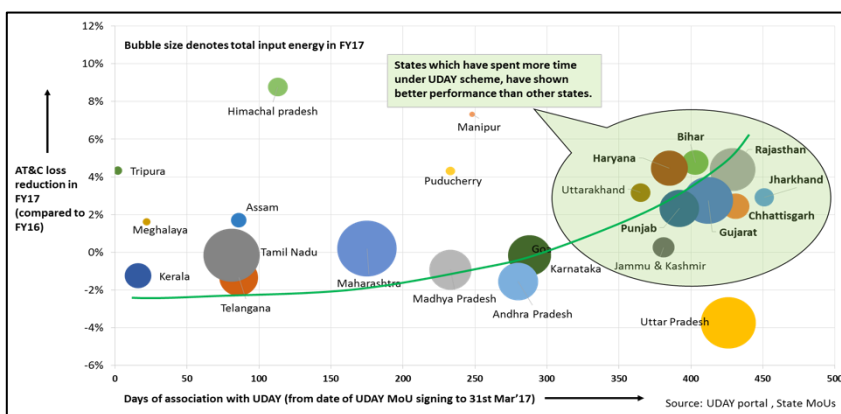
### 1.0 Impact of UDAY on State finances; Debt servicing and take over of future losses

UDAY envisages a gradual takeover of the DISCOM losses by States from the third year, recognising that the financial liabilities of DISCOMs are contingent liabilities of the respective states. Thus, *de facto* liabilities of the States have become *de jure* after UDAY. With UDAY, the overall cost of the debt with an overall standing of the State (DISCOM included) has reduced along with an improved loan asset quality. Thus, finances of States and their DISCOMs have improved as opposed to pre-UDAY days.

UDAY minimises the impact of the takeover through several measures. The transfer of grants to DISCOMs has been spread over a period of three to five years to reduce interest shock. Turnaround of DISCOMs in the targeted period would reduce the financial dependence of DISCOMs on the States through non-tariff support. With a progressive increase in the GSDPs, even at a nominal rate of 5%, the impact of UDAY on the fiscal deficits would reduce substantially over the years.

As such, there is nothing new which has been brought out in the news report, except for the possibility that the understanding of UDAY interventions has been incomplete.

### 2.0 There is a big gap between the UDAY targets and what has actually been achieved.



Reform programs scale up as reform interventions start cutting in. A simple analysis of the trajectory of improvements made by States, as made in the figure aside indicates that the progress of States which have put in more time under UDAY have shown increasingly higher

improvements and at an increasing scale as the time progresses.

On overall basis, a reduction of around 1% has been achieved by UDAY states in AT&C losses during FY17 compared to FY16. The gap between ACS-ARR gap has been reduced by more than 25%. While certain States have made significant improvements, others have seen improvements at a lower scale. This is expected in a large-scale reform program, as not all verticals, stakeholders, and intervention areas would move forward with the same pace at all time. Gujarat, Karnataka, Tripura, Uttarakhand, Andhra Pradesh, Assam, Bihar, Chhattisgarh, Haryana, Jammu & Kashmir, Kerala, Manipur, Rajasthan, Tamil Nadu, Telangana and Uttar Pradesh have reduced their AT&C losses. It is noteworthy that on a national perspective, most of the high energy consuming states have improved their AT&C loss reduction performance.

Tariffs across the country have become more reflective of the costs and have doubled the impact on the revenues after UDAY. With an increasing emphasis on costs, most of the inflationary impact of WPI, Coal price hike and Railway freight hike has been absorbed by the efficiency improvements in generation and power dispatch/ procurements, leading to only 1% increase on landed power costs to DISCOMs as against more than 7% in FY16. Power purchase costs generally account for around 80%

of the DISCOM expenses, and therefore stemming the increase, despite adverse factors, has been a major achievement of reforms under UDAY.

### 3.0 Variation in data across various sources. Fluctuations in UDAY data shows inaccuracy

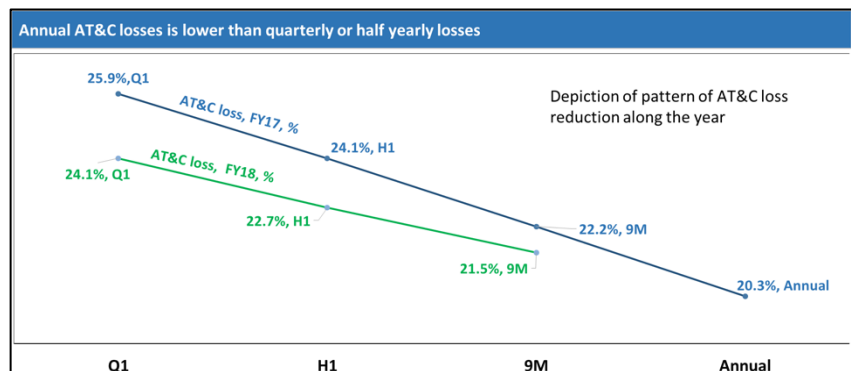
This issue has been raised out of a lack of understanding of the Distribution Sector and how AT&C loss levels are calculated. It also ignores the advisories issued by this Ministry through media outreach events and Social media handle.

DISCOMs, not being listed companies, do not have a requirement of quarterly reporting of AT&C loss figures, nor can the losses be estimated accurately due to different methods and periods of billing and collection cycles. Since waiting for annual statement figures, which come after a considerable lag, would be of no use for monitoring, a mechanism of quarterly reporting of provisional data has been instituted for trend analysis. Given the provisional nature of the data, the same has to be intelligently used, sometimes in corroboration with other data as well.

Such analysis conducted by the Ministry has already revealed aberrations such as in case of Punjab, where the Government subsidies could not be released; Jharkhand, where provisional figures were interim due to upgradation of billing software; Uttarakhand, where dues from government departments were cleared in the month of March; and, Madhya Pradesh, where increased power supplies to consumers have resulted in temporary increase in losses. These intra-year variations are transient in nature, and do not indicate signs of permanence. Further, with a view to monitor fiscal prudence of States, the UDAY portal, since inception, also incorporates subsidies booked but not realized in AT&C loss computation, and therefore gives a more comprehensive assessment of loss figures than other estimates.

The news report errs by making an apple to orange comparison of comparing AT&C loss figures of different periods, ie, comparing Quarterly data with the yearly data. AT&C losses vary across the year due to seasonal variations of varying demand patterns, revenue collection (as in case of agricultural harvest, sowing season etc), subsidy releases, payment of Government dues etc. As such, cherry-picking comparisons of different periods of time does not stand the test of drawing logical conclusions. At best, comparisons could be drawn for similar period of time for a better understanding. Even these comparisons have to internalize reasons for wider variations across the periods.

The adjoining graph of AT&C loss reductions based on actuals of FY17 and FY 18 should finally put the issue to rest. The general trends clearly show a progressive reduction of AT&C losses over the year. Even these trends have to be carefully analyzed and analyzed in conjunction with other information/data before drawing definitive conclusions.



Recognizing the limitations of the interim provisional data, drawing simplistic conclusions & value judgements without an adequate understanding of the Sector, and without corroborating the findings from other associated data would not be correct. The Ministry has accordingly cautioned the readers of the UDAY portal to be careful in interpreting the data.