REPORT
OF THE COMMITTEE ON

DELAYED PAYMENT BY DISCOMS TO GENCOS/IPPS

AUGUST 2019

INDEX

1. Background

1.1 The financial stress in the thermal generation sector was visible for last couple of years. The Government of India had constituted a High Level Empowered Committee (HLEC) on July 29, 2018 to address the issues of stressed thermal power projects which has identified several factors leading to this situation. The HLEC has, inter-alia, identified delayed payments by DISCOMs as one of the major reasons for financial stress.

1.2 Delayed payment by DISCOMs: The extent of the problem

1.2.1 The extent of the problem of delayed payment can be gauged from the fact that at the end of May 2019, the total overdue amount of generating companies was Rs 22,313 Cr (Source: PRAAPTI portal as on 22.07.2019). A high proportion of this overdue amount is attributable to only a few states. According to PRAAPTI portal, top six states in terms of overdue amount at the end of May 2019 were Uttar Pradesh (Rs 4982 Cr), Karnataka (Rs 3351 Cr), Tamil Nadu (Rs 3330 Cr), Telangana (Rs 2119 Cr), J&K (Rs 1862 Cr) and Rajasthan (Rs 1541 Cr) contributing together about 77 % of the overdue amount. This overdue amount does not include the disputed amount. Also, this amount does not include overdue amount against PPAs signed between the generators and power trading companies for power sale to DISCOMs through back to back PPAs, as this data is not being captured on PRAAPTI portal at present. Therefore, there is a need to reflect this amount also on PRAAPTI portal.

1.2.2 Across generating companies, IPPs had the highest overdue amount of Rs 14,472.55 Cr from DISCOMs at the end of May 2019. Amongst the Public Sector Generating Companies, the highest overdue amount in May 2019 was for NTPC Limited (i.e Rs 4,661.16 Cr) followed by NHPC Limited (i.e Rs 1,973.90 Cr). The figure below shows overdue amount of generating companies at the end of May 2019.

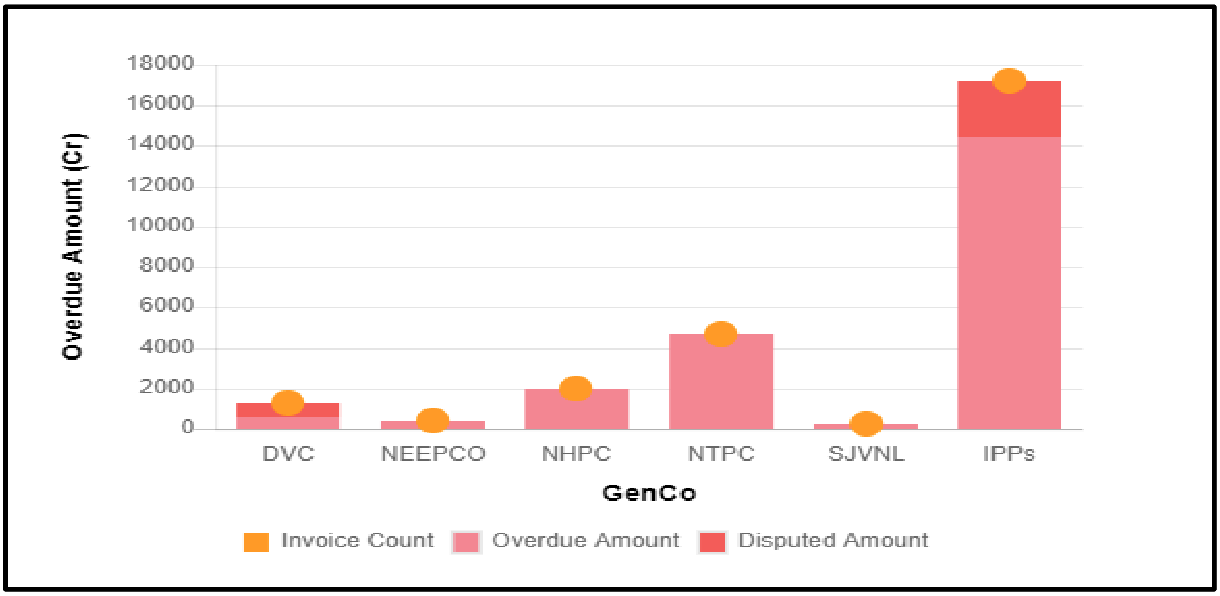


Figure 1.1: Overdue amount of generating companies at the end of May 2019

(Source: PRAAPTI portal)

1.2.3 It is observed that cumulative overdue amount payable to generating companies in May 2018 was Rs 19,938 Cr. Thus, over a period of one year, the overdue amount has increased by 10.60%.

1.2.4 The total payments made by the DISCOMs from June 2018 to May 2019 shows that the monthly amount paid by distribution utilities to the generating companies is lower than the amount billed for each month except September 2018 and March 2019. The chart below captures this information on monthly basis:

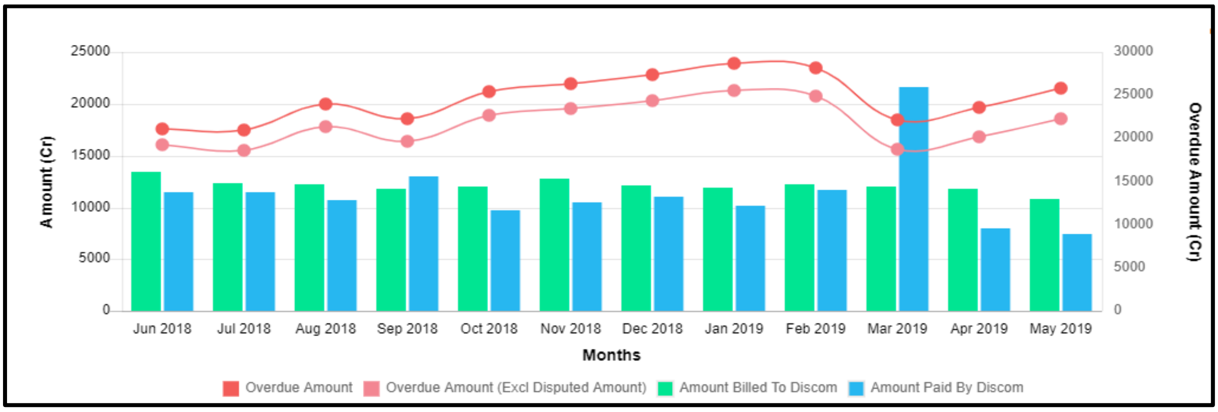


Figure 1.2: Total payment made by DISCOMs from June 2018 to May 2019
(Source: PRAAPTI portal as on 22.07.2019)

1.2.5 In addition to the above, there is huge outstanding dues of RE generators also which has not been captured in PRAAPTI portal.

1.3 <u>Impact of delayed payment</u>: This delay in realization of receivables from DISCOMs impairs the ability of power project developers to service their debt and leads to exhaustion of working capital. This in turn constrains payments for coal to Railways which is a big concern since these payments are to be made in advance. Thus, the current transactional structure in the power sector value chain involves advance payment by generating companies to the coal companies for coal supply and to Railways for rail freight. On the other hand, DISCOMs get 30/60 days after the end of the month to make the payment to generators. In fact, the DISCOMs are generally making payments much beyond this period. These issues are deliberated in detail in subsequent chapters.

1.4 <u>Constitution of the Committee</u>:

1.4.1 To address the issue of delayed payment by DISCOMs to generating companies and to analyze the existing working capital cycle leading to stress of generating companies, a committee was constituted by Ministry of Power under the chairmanship of Chairperson, CEA with other members from MSEDCL, TANGEDCO, MoP, APP and IPPAI. The Committee co-opted Member (E&C), CEA as Member and Chief Engineer (F&CA), CEA as Member Convener of the Committee. A copy of the Office Memorandum regarding constitution of the committee is enclosed at **Annexure-A**.

1.4.2 The terms of reference of the Committee were as under:

1) To study the working capital cycle of DISCOMs and generating companies with respect to power procurements for all competitively bid and regulated PPAs, and identify gaps, if any contributing to the generating company stress.
2) To study the framework of the rules and regulations in regard to payment mechanisms and transaction structures across the power sector value chain.
3) To explore possibilities and suggest a mechanism for prepaid system of transactions from DISCOMs to generators for power purchase within the framework of extant rules and regulations.

2. Deliberations by the Committee

2.1 The first meeting of the committee was held on 6th February, 2019 wherein the problems faced by generating companies/IPPs due to delayed payments by DISCOMs were highlighted by representatives from APP/IPPAI. In this regard, CMD (TANGEDCO) pointed out the problems faced by DISCOMs due to which they are unable to pay their dues on time to generating companies/IPPs. In this meeting, it was also decided to invite some more DISCOMs in the next meeting to have a wider consultation on the issue. Record of discussions held in the first meeting of the Committee is enclosed at **Annexure-B**.

2.2 The second meeting of the committee was held on 18th February, 2019 wherein GUVNL, WBSEDCL, UPPCL and JVVNL were present as special invitees. Various DISCOMs stated their state specific issues like difficulty in receiving the subsidy from the Government in time, tariff revision not taking place every year, difficulty in recovery of dues from rural consumers, delay in orders by Regulatory Commissions, award of non-remunerative tariffs etc. Record of discussions held in the second meeting of the Committee is enclosed at **Annexure-C**.

2.3 The third meeting of the committee was held on 22nd February, 2019 wherein PCKL (Karnataka) and BSPHCL (Bihar) were present as special invitees. PTC was also invited for this meeting. Almost all the members pointed out similar problems deliberated in earlier meetings in regard to DISCOMs as well as generating companies. Finally, based on the deliberations that took place in all the three meetings, it emerged that the ways suggested by participants to resolve this issue were mostly similar to HLEC recommendations on the issue of delayed payment by DISCOMs. Record of discussions held in the third meeting of the Committee is enclosed at **Annexure-D**.

2.4 Based on the above mentioned deliberations, draft report of the Committee was circulated to members of the Committee on 27.05.2019. Comments were received from APP and IPPAI on 07.06.2019 and 17.06.2019, respectively. After follow-up, comments were received from MSEDCL and TANGEDCO on 05.07.2019 and 06.07.2019, respectively. In the meantime, Ministry of Power, Government of India issued an order on 28th June 2019 mandating opening and maintaining of Letter of Credit (LC) as Payment Security Mechanism. This order essentially directs that in the absence of LC of requisite amount, Load Despatch Centres shall not schedule energy to the Discom from the generating station concerned.

3. Issues faced by Generating Companies

3.1 Generating companies are facing huge problems due to delayed payments by the DISCOMs. As mentioned earlier, the overdue amount for generating companies engaged in conventional generation is about Rs. 22,313 Cr (Source: PRAAPTI portal as on 22.07.2019). Major proportion of this is attributable to only few states like UP, Karnataka, Tamil Nadu, Telangana, J&K and Rajasthan. Further, about 65 % of the overdue amount are for IPPs.

3.2 The delayed payment by DISCOMs creates following difficulties for the generating companies:

(i) The non-payment by DISCOMs creates working capital problem for generating companies, This, in turn, leads to inability to procure adequate coal to comply with the normative availability requirements. The working capital crunch faced by generating companies is illustrated in detail in the section 3.7 of this report.

(ii) Inability to buy coal may lead to further under recovery of fixed charges and penalties.

(iii) Reduced coal availability may also result in part load operation of units which in turn may lead to higher station heat rate and higher auxiliary power consumption.

(iv) Further, inability to service debt to lenders due to cash crunch leads to lower credit ratings and charging of higher rates of interest including penal interest on the generating companies.

(v) It has been pointed out to the Committee that most of the stressed IPPs are paying interest at the rate of 12-13% even after 4-5 year of operations.

(vi) Generating companies, particularly IPPs, are trying to overcome the cash crunch by way of taking additional short-term loans at very expensive rates, thereby further burdening the financials and cash limits.

(vii) All the above difficulties may ultimately culminate in default in debt servicing. Thus, delayed payment by DISCOMs is pushing the assets being tuned into NPAs, thereby affecting the banking sector and the country’s economy in general.

3.3 Delayed payments is not a new issue in the power sector. Staring from the year 2001, tri-partite agreements were signed between RBI, State Governments and Central Power Sector Utilities for securitization of dues of erstwhile SEBs based on the report of the Ahluwalia Committee. The tenure of these agreements was 15 years. These agreements were further extended in the year 2016.

Securitization of dues of SEBs through Tripartite Agreement

Government and Reserve Bank of India signed a Tripartite Agreement with States during 2003-04 for a one-time settlement of State Electricity Dues. Highlights of the mechanism were securitization of the old arrears of SEBs amounting to Rs.37,400 crore; waiver of 60% of the interest/surcharge (Rs.8,300 crore) payable by the SEBs; net outstanding converted into tax-free SLR Bonds with interest rate of 8.5% per annum; repayment period of 15 years with a moratorium of 5 years; incentives amounting to Rs.6,100 crore over a period of 4 years to States participating in the Scheme; full payment of current bills through Letters of Credit and commitment of the States to undertake Reforms based on performance milestones. This one-time settlement was done with the objective of making SEBs Electricity Boards bankable entities.

The scheme was a follow up on the Montek Singh Ahluwalia Committee recommendations and covered the outstanding dues payable by the SEBs to the PSUs under the Ministry of Power, Coal India Limited & its subsidiaries, Neyveli Lignite Corporation, Nuclear Power Corporation and the Ministry of Railways.

The Agreement envisaged RBI agreeing to the entire principal and 40% surcharge to be securitized in the form of RBI bonds on behalf of the respective State Governments with tenure of 15 years, there was a moratorium of five years for redemption of bonds, only 10% of the bonds were allowed to be traded in the market by the CPSUs every year and the bonds were carrying an interest rate of 8.5% and the interest was tax free. The Tripartite Agreements were extended for a further period of 5 years in the year 2016

3.4 It is not that the regulators and policy makers were not aware of the perennial problem of delayed payment by DISCOMs. CERC has framed regulations for curtailment of supply due to non-payment of dues. Further, the Payment security mechanisms like LC / Escrow mechanism have been included in the model PPAs as part of Standard Bidding Documents. However, in most of the cases, these mechanisms have not been operational. The time limit for making payment is 30 days in case of competitively bid projects under Section 63 of the Act and 60[1] days for projects under Section 62 of the Act. However, DISCOMs keep all the payments on the same pedestal and often consider 60 days for all projects.

3.5 Further, most of the PPAs have a provision for third party sale/termination of PPA, in case of default by the procurer. However, generating companies are generally not able to implement this provision mainly because the supply of linkage coal to a generating station is allowed only in case of power supply under long-term and medium term PPA. Generating companies, willing to explore third party sales would generally be doing so under short-term contracts or in the day ahead market (DAM) operated by power exchanges and will end up losing their coal linkage. It may be added that due to the prevailing situation, when power

[1]Note: In the CERC's Tariff Regulation for 2019-24, this period has been reduced to 45 days.

availability is generally higher than what is required, the prices in short-term market/DAM may not be very attractive. However, a generating company should be willing to dispatch as long as clearing price is more than variable charges. The constraint of linkage based coal supply for power supply in short-term/DAM now has been taken care as per the MoP OM dated 8th March 2019 based on CCEA approval on HLEC recommendations. This OM inter-alia allows power supply under short-term contract through DEEP portal or through day-ahead market for a period of 3 months to maximum of 1 year in case of cancellation of long-term or medium term PPA due to non-payment by the procurer. The modalities for implementation of this decision are being finalized[2].

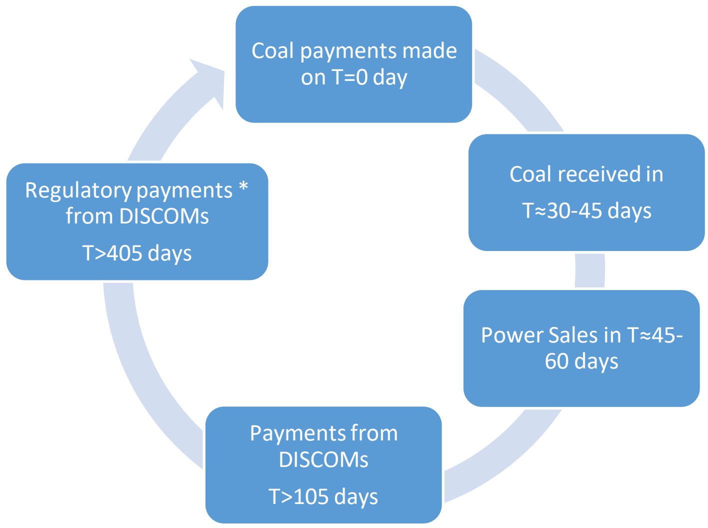
3.6 Recently in some cases, generating companies have alleged that some DISCOMs have pressed for renegotiating the terms of the PPA wherein they were pressurizing the generating companies to waive off the Late Payment Surcharges (LPS) even if the payment is being made late. Generating Companies have also alleged that in few instances, DISCOMs are arm-twisting generating companies to offer discounts in the agreed tariff. However, MSEDCL has informed that there were instances where the RE generators have themselves offered waiver of LPS to MSEDCL.

3.7 Working Capital related issues faced by generating companies

3.7.1 Working Capital means funds that are used for running the day to day operations of a business. It can be defined as:

Working Capital = Current Assets- Current Liabilities

3.7.2 The figure below shows cash flow cycle of generating companies, indicating major expenditure and revenue along with time in days.



* The term Regulatory Payments is used by generating companies to denote receivables due to change in law etc consequent to Regulatory Orders. This receivable is over and above the receivables corresponding to the tariff mentioned in PPA.

Figure 3.1: Cash Flow Cycle of Generating Companies

[2] A mechanism to ensure that net surplus generated after meeting operating expenses are entirely used for servicing debt has been notified by Ministry of Power on 05.08.2019.

3.7.3 It can be seen that the cash flow cycle of generating companies extends much longer than 60 days; the period specified for making payments as per regulations framed by CERC and SERCs. The regular bills as per PPA tariff generally remain unpaid much beyond the prescribed period of 60 days in case of projects under Section 62 of the Act and 30 days under Section 63 of the Act. Generating companies have also pointed out that regulatory orders for additional compensation due to “Change in Law” etc are generally challenged in the courts and remain unpaid for a period of one year or more.

3.7.4 The table below shows working capital requirement of a typical 1000 MW plants with linkage coal, operating at 85% PLF:

Current Assets	**No of months of Annual cost**	**As considered by Banks**	**Actual With regulatory receivables**
Inventory		**Rs Cr**	**Rs Cr**
Coal	2	252	252
Secondary Oil	2	3.7	3.7
Trade Receivables	3	735	735
Trade Receivables (>90 days) (generally regulatory receivables)		-	400
Total		**991**	**1,391**
Current Liabilities			
Creditors			
Firm Linkage Coal	0	-	-
Secondary Oil	6	11	11
Total		**11**	**11**
Working Capital		**980**	**1,380**

3.7.5 The banks are willing to extend working capital loan for receivables of 3 months only. Therefore, in case of generating company operating the plant in question in the table above, banks will be willing to give working capital loan of Rs 980 crore only, whereas the requirement is Rs 1380 crore assuming that the DISCOMs don’t get paid within 3 months which the regulations stipulate. To continue operations, generating companies are required either to put in their own funds or to go for short-term credits at steep rates of interest. If receivables continue to pile up, it may become extremely difficult for the generating company to service the debt and at some point generating company may be compelled to stop operations.

3.8 Impact of delayed payment on RE generators

3.8.1 As mentioned earlier, there is a huge overdue amount payable to RE generators also which is not reflected in the PRAAPTI portal.

3.8.2 Delayed payments from DISCOMs is causing severe strain on Solar/Wind generators in maintaining adequate cash flows to pay their vendors, service their debt and even for meeting routine O&M expenses including salaries.

3.8.3 In addition to strain on domestic banking sector, it can have an impact on the country's global image as substantial investment in RE sector is from overseas investors. Visualizing the stressed cash flows due to delayed payments by DISCOMs, lenders may not come forward for further investments and this can adversely impact materialization of our targets of RE capacity.

3.8.4 RE generators have also stated about arm-twisting by DISCOMs for waiver of Late Payment Surcharge and request for discounts in order for obtaining priority for payments due to the RE Developers. Such a practice may also have impact on investment climate.

3.8.5 As compared to conventional generating companies, many wind / solar generators are small developers in terms of financial backing and some of them are even new entrants in the sector. It would be extremely difficult for such generators to survive in the face of delayed payments.

3.9 RE Developers are not able to pay salaries to their staff on time and this could create a severe impact on the skilled and unskilled human resources in the country. This poses a huge risk on RE Development as the skilled human resources may leave their existing jobs and try for employment in other sectors for their livelihood. According to a report by NRDC (Natural Resource Defense Council) and CEEW (Council on Energy Environment and Water) June 2017, Solar and wind energy employed more than 21,000 people in India in 2016-2017 and it is also estimated that over 300,000 workers will be employed in the next 5 years to achieve India's solar and wind energy targets, mostly in the rooftop solar sector. Employment to these workers, would be in jeopardy, if the delayed payment to RE sector continues.

4. Problems faced by the DISCOMs

4.1 It is noted that the revenue realized by the DISCOMs is much lower than their costs, which is captured by the ACS-ARR gap. The ACS-ARR gaps for some of the DISCOMs, as reported in the UDAY portal is as under:

S.No	State/U.T.	Discom	ACS-ARR gap (Rs per Unit)	
			Achievement	As on
1	Tamil Nadu	TANGEDCO	0.27	Dec-18
2	Kerala	KSEB	0.27	Mar-19
3	Karnataka	BESCOM	-0.03	Dec-18
4	Karnataka	CHESCOM	0	Dec-18
5	Karnataka	GESCOM	0.49	Mar-19
6	Karnataka	HESCOM	0.1	Mar-19
7	Karnataka	MESCOM	-0.06	Mar-19
8	Puducherry	PUPD	0	Dec-18
9	Andhra Pradesh	APEPDCL	0.05	Dec-18
10	Andhra Pradesh	APSPDCL	0	Dec-18
11	Telangana	TSNPDCL	0.33	Mar-19
12	Telangana	TSSPDCL	0.66	Dec-18
13	Chattisgarh	CSPDCL	-0.03	Dec-18
14	Jharkhand	JBVNL	0.57	Dec-18
15	Bihar	NBPDCL	0.24	Dec-18
16	Bihar	SBPDCL	0.5	Dec-18
17	Uttar Pradesh	PUVVNL	0.88	Mar-19
18	Uttar Pradesh	PSVVNL	-0.19	Mar-19
19	Uttar Pradesh	KESCO	-1.34	Mar-19
20	Uttar Pradesh	DVVNL	0.73	Mar-19
21	Uttar Pradesh	MVVNL	0.03	Mar-19
22	Sikkim	EPDGS	6.53	No data
23	Meghalaya	MePDCL	1.3	Jun-18
24	Tripura	TSECL	0.08	Dec-18
25	Manipur	MSPDCL	0.08	Dec-18
26	Assam	APDCL	0.43	Dec-18
28	Uttarakhand	UPCL	0.17	Mar-19
30	Jammu & Kashmir	J&K PDD	1.96	Dec-18
31	Punjab	PSPCL	0.48	Dec-18
32	Haryana	UHBVNL	-0.12	Dec-18
33	Haryana	DHBVNL	0.06	Dec-18
34	Rajasthan	JDVVNL	-0.03	Mar-19
35	Rajasthan	AVVNL	-0.58	Mar-19

36	Rajasthan	JVVNL	-0.39	Dec-18
37	Gujurat	UGVCL	-0.03	Mar-19
38	Gujurat	PGVCL	-0.01	Mar-19
39	Gujurat	MGVCL	-0.07	Mar-19
40	Gujurat	DGVCL	-0.07	Mar-19
41	Madhya Pradesh	MPPKVVCL	-0.28	Dec-18
42	Madhya Pradesh	MPMKVVCL	0.77	Dec-18
43	Madhya Pradesh	MPPoKVVCL	0.58	Dec-18
44	Maharashtra	MSEDCL	-0.07	Mar-19
45	Goa	GOAED	0.41	Sep-18
46	Dadra and Nagar Haveli	DNHPDCL	0.06	Sep-18
47	Daman and Diu	DDED	-0.02	Mar-19

4.2 With such a gap between revenue and expenditure, DISCOMs would either try to take loans to meet the costs or defer some expenditure including payments to the generating companies. The major factor which contribute to ACS-ARR gap is that periodic tariff revision is not taking place in some of the states. Even when tariff is revised, the increase is not commensurate with the legitimate costs.

4.3 As we know, ARR is on accrual basis and in reality cash flow is even less due to following reasons:

(i) Generally, all the DISCOMs have huge overdues from Government Departments/Local bodies. In some states, this amount is almost equal to their total overdue amount payable to the generating companies. There are mixed results from implementation of pre-paid metering for government Departments/local bodies. For example, in Rajasthan, the pre-paid metering system for Government Departments didn't deliver results as DISCOMs found it difficult to cut the power supply of Government Departments even if they fail to recharge their meters.

(ii) There is generally a delay in getting the subsidy from state government. The details of subsidy boked and subsidy received for the years 2016-17 and 2017-18 for various DISCOMs is attached at **Annexure-E**. These details on all India basis are illustrated in the chart below:

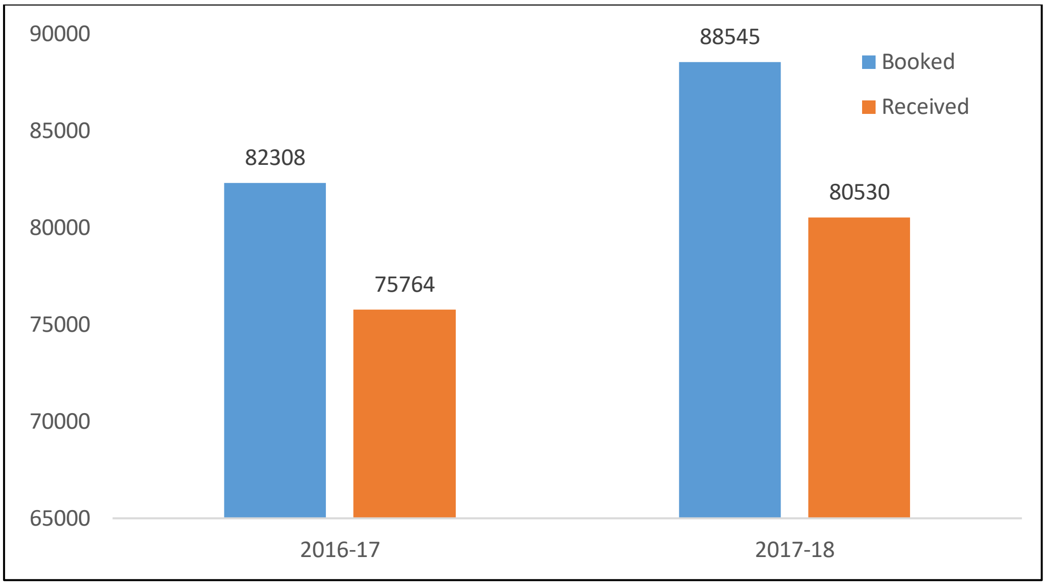


Fig 4.1: Subsidy booked and subsidy received on all India basis for the years 2016-17 and 2017-18

It may be seen that the subsidy amount of about Rs 6500 Cr and Rs 8000 Cr remain unpaid to DISCOMs during 2016-17 and 2017-18. Such huge unpaid subsidies contribute to poor financial health of DISCOMs.

(iii) Also, significant part of the DISCOMs consumers are from rural areas and recovery of dues from such consumers has been a challenge for DISCOMs in most of the States due to socio-economic compulsion of the Government.

4.4 Thus, it may be seen that the fundamental problem faced by DISCOMs is that cash inflow is not enough to meet the expenditure.

4.5 **Working Capital Cycle of DISCOMs**

4.5.1 In so far as cash flow of DISCOMs is concerned, the issuance of bills and receipts of payments from the retail consumers is dispersed throughout a month. However, the generators and suppliers raise bill between 5 to 15 days after end of calendar month and DISCOMs are supposed to pay the same within 30 to 60 days. Cash inflow to DISCOMs is also delayed due to regulatory receivables including Regulatory Assets, non-receipt of Fuel Adjustment Charge (FAC) etc.

4.5.2 The table below shows the working capital requirement of a typical Discom for continuous supply of 1000 MUs per month:

A	Units Purchased	MUs	1225
	Average rate of power purchase	Rs/kWh	4.57
	Power Purchase Cost	Rs. Crs	5598
B	Transmission Loss	%	4.25
	Distribution loss	%	14.76
C	Units Sold	Mus	1000
	Average billing rate	Rs/kWh	6.72
	Total Sales	Rs. Crs	6720
D	**Working capital required** (As per MERC norms)	Rs. Crs	
	Receivables (1.5) months		10080
	Liquid funds for O& M expenses (1 month - 11 % of sale)		739
	Inventory of Spares (1 month - 10 % of sales)		672
	Payable for power purchase (1 month)		(5598)
	Working capital required	Rs Cr	**5893**

4.5.3 The loss percentages and turnover time considered in the above example is as considered by the regulator in the tariff order while determining the tariff. However, in actual scenario, the billing cycle of agricultural consumers is 3 months as against 45 days considered by the regulator. Moreover, the collection efficiency further affects the working capital of DISCOMs adversely. The collection efficiency is very much dependent on the consumer mix. As the agricultural consumers are more in the consumer mix, the actual receivables turnover period exceeds to more than 3 months also.

4.5.4 While assessing the working capital requirement of any company, banks follow the method of calculating maximum permissible bank finance (MPBF). Most of the DISCOMs would not be eligible for any bank finance if Banks follow this criterion strictly. However, in view of the fact that most of the DISCOMs are government owned and have a long term relationship with the banks, the latter extend limited funds to the DISCOMs.

4.5.5 Thus, interest costs of DISCOMs continue to increase steadily and yet they find it difficult to meet their expenditure. This culminates into delayed payment to generating companies.

5. Recommendations

5.1 Discounting of bills

5.1.1 In its report HLEC has inter-alia made the following recommendation:

"The Committee recommends that Ministry of Power may formulate the proposal for TPA coverage to PFC/REC for discounting bills of IPPs for consideration of the Competent Authority. Banks like SBI can also examine such discounting arrangements through existing FRAC mechanism (Fractional Reserve Banking/Lending Finance) for consideration of the Competent Authority."

5.1.2 This Committee has worked further on this suggestion and found that it may be a viable option to create a discounting platform similar to Trade Receivable Discounting System (TReDS) created for Micro, Small and Medium Enterprises (MSMEs).

<u>Trade Receivable Discounting System (TReDS)</u>

Discounting of bills by Trade Receivables Discounting System or TReDS is an initiative undertaken by Reserve Bank of India to facilitate conversion of trade receivables of MSMEs into liquid funds in a short period. The TReDS is governed by the regulatory framework put in place by RBI under the Payment and Settlement Systems Act 2007 (PSS Act). It is an electronic platform that allows auctioning of trade receivable. The process is also commonly known as 'bills discounting' involves a financier (typically a bank) buying a bill (trade receivable) from a seller of goods before it's due or before the buyer credits the value of the bill. The discount is the interest paid to the financier.

The process starts when a seller uploads the invoice on the platform. It then goes to the buyer for acceptance. Once the buyer accepts, the invoice becomes a factoring unit. The factoring unit then goes to auction. The financiers offer their discounting rate. The seller or buyer, whoever is bearing the interest cost, accepts the final bid. TReDs then settle the trade by debiting the financier and paying the seller. The amount gets credited the next working day into the seller's designated bank account through an electronic payment mode. The second leg of the settlement is when the amount is repaid to the financier.

Ministry of Corporate affairs (MCA) and Ministry for Small and Medium enterprises has made it mandatory for all companies which has revenues over and above Rs 500 crores to register in this platform and payment needs to be made as per the RBI guidelines.

5.1.3 Proposed process flow is as follows where the sellers are Generating companies/Trading licensees and buyers are DISCOMs.

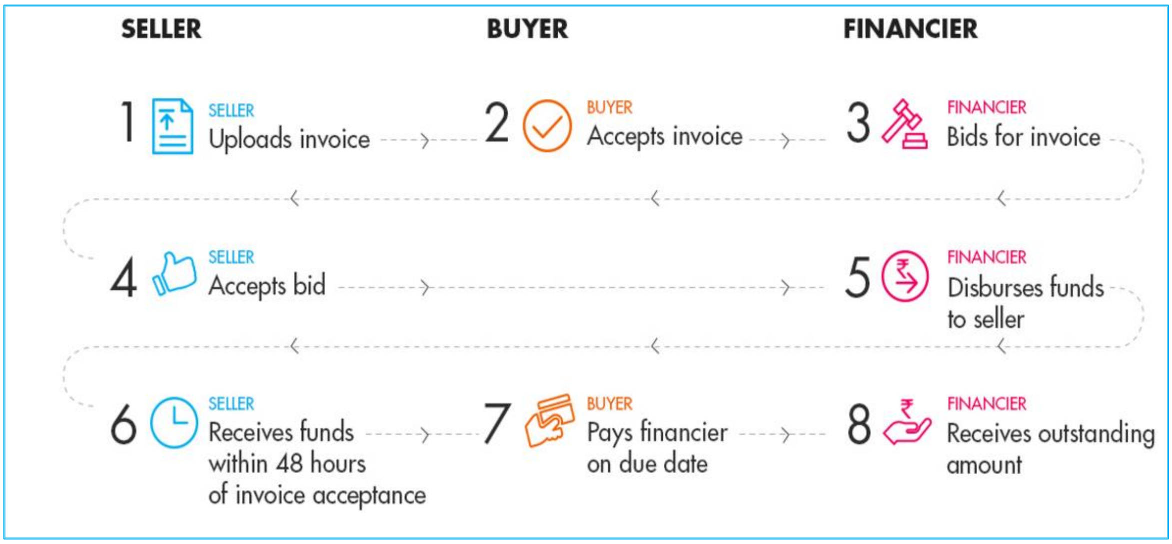


Fig 5.1: Process flow in the bill discounting system

<u>Note:</u> At serial no 2 in the above diagram, if buyer doesn't accept the invoice within the period of seven days, the invoice would be deemed to have been accepted by buyer.

5.1.4 However, in view of the past and current trend, not many Banks may come forward for bill discounting. In order to ensure payment security for them, a Tri-partite agreement between RBI, State Government and participating banks may be developed. In case of default by the DISCOM, the RBI may appropriate the dues from the resources to be transferred from Centre to the State concerned. This is also in line with the recommendation of HLEC.

5.2 Advance payment by DISCOMs to Generating Companies

5.2.1 There is asymmetry in requirement of "Advance Payment" in the various links of value chain of power sector. Exhibit below shows various links of value chain of power sector along with extent of implementation of "Advance Payment":

	**Coal Supply**	**Full Advance Payment** For linkage coal as well as for e-auction coal, the generating companies are required to make advance payment.
	**Coal Transportation**	**Full Advance Payment** Generating companies are required to make advance payment to Railways for transportation of coal.
	**Generation**	**No Advance Payment** Procurers are given 30 days to make payment after billing in case of generating stations under Section 63 and 60 days (45 days as per new CERC norms) for those under Section 62 of the Electricity Act 2003.
	**Transmission**	**Advance Payment only in STOA** Transmission customers make advance payment for transmission charges only in case of STOA (Short-term Open Access). Only about 5-6% energy is transacted using STOA.
	**Distribution**	**Insignificant Advance Payment** Presently negligible part of energy sold by DISCOMs is under pre-paid metering. In spite of obvious advantages, it may take a couple of years before pre-paid Smart metering assumes significant role.

Fig 5.2: Extent of advance payment in the value chain of power sector.

5.2.2 During the meetings of the Committee, representatives of APP and IPPAI pointed out that generating companies make advance payment to coal companies for linkage coal as well as for e-auction coal. Regulators generally provide for coal stock of 15/30 days for pit-head/ non pit-head generating stations and coal consumption for a month commensurate with generation corresponding to normative availability factor. As against this, for e-auction coal, the successful bidder receives coal after 4 to 12 months after making payment. The payment for coal to be made so much in advance together with enormous delay in receipt of payment from DISCOMs stretches the working capital cycle of generating companies to a breaking point.

Thus, clearly there is need to:

(i) Reduce the period of advance payment in case of e-auction coal and
(ii) To introduce at least part advance payment by DISCOMs to the generating companies.

Accordingly, the Committee recommends following:

5.2.3 Part pre-payment by DISCOMs to the generating companies[3]

- There is need to introduce part advance payment by DISCOMs to the generating companies.

- Initially, all the generators should be entitled to get in advance an amount equivalent to 25% of the estimated bill for the next month. Later (say after one year), this can be increased to 50% for all the generators using fuel such as coal, lignite or gas.

- The month in which the pre-payment requirement will get introduced as well as the month in which pre-payment requirement for generating station using fuel will be increased to 50%, the DISCOMs will face severe working capital crunch. State Government and Banks/FIs may be required to extend necessary support during such period.

- The advance payment option for DISCOMs may range from advance payment for entire month to payment for a day on 3-day in advance basis. DISCOM will have to decide in advance about frequency of pre-payment to the generating company.

- DISCOMs should be appropriately compensated by way of discount for making advance payment. If for some reason, the generating company ends up receiving more money than the final bill for the relevant month, generating company should pay interest to the DISCOMs.

- The discount and rate of interest should be based on the regulatory orders issued from time to time.

[3] **TANGEDCO and MSEDCL have expressed disagreement with this recommendation.**

- If DISCOM fails to make pre-payment as per pre-decided frequency, the generating company would presume that DISCOM is not interested in dispatching the generating station for the relevant duration (based on frequency of pre-payment). The resultant un-despatched capacity shall be akin to unrequisitioned surplus and the generating company should be allowed to dispose it off in accordance with para 6.2 (1) of the Tariff Policy dated 28th January 2016 which states that:

  > *"Notwithstanding any provision contained in the Power Purchase Agreement (PPA), in order to ensure better utilization of un-requisitioned generating capacity of generating stations, based on regulated tariff under Section 62 of the Electricity Act 2003, the procurer shall communicate, at least twenty four hours before 00.00 hours of the day when the power and quantum thereof is not requisitioned by it enabling the generating stations to sell the same in the market in consonance with laid down policy of Central Government in this regard".*

- Since the aforesaid para of the Tariff Policy is applicable only to generating stations set up under Section 62 of the Act, the Tariff Policy may be amended to extend scope of this para to all the generating stations. Appropriate Commission should amend their regulations to give effect to this recommendation.

- If the generating company is using linkage coal, it should be allowed to use the same for supplying the unrequisitioned surplus in the market.

5.2.4 Payment for coal based on Usance LC

If generator do not make full advance payments by cash or by way of Letter of Credit (LC), they have option to make payments in 3 installments say on 28th, 7th, 20th day of the month. Under partial payments, the allotment of rakes and lifting of coal is also prorated and delayed accordingly. An approximate allocation of rakes as per three-part payment is as follows:

Day	**28**	**29**	**30**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**	**21**	**22**	**23**	**24**	**25**	**26**	**27**	**28**	**29**	**30**	**1**	**2**	**3**	**Total Rakes**
Rake Plan	42																																				42
Payment (1/3)	**14**												**14**										**14**														**42**
Allotment of Rakes 1st payment						1		1		1		1		1		1		1		1		1		1		1		1		1		1					14
Allotment of Rakes 2nd payment																	1		1		1		1		1		1		1		1		1	1	1	1	12
Allotment of Rakes 3rd payment																										1		1		1		1	1	1	1	1	8
Total Rakes materializ	0	0	0	0	0	1	0	1	0	1	0	1	0	1	0	1	1	1	1	1	1	1	1	1	1	2	1	2	1	2	1	2	2	2	2	2	34
Lapsed Rakes																																					8

Fig 5.3: Likely scenario of allocation of rakes in case of payment in three installments.

It is clearly evident that it is practically not possible to get full materialization if last tranche of payment is made during 3rd week of the month.

As per the prescribed format in the signed Fuel Supply Agreement (FSA), payments are made through Irrevocable Letter of Credit (IRLC) which provides for an immediate payment and a nominal credit period of only 10-15 days by way of only the time it takes for the documents to be exchanged. This is essentially a payment security mechanism with no credit period. In the current macro environment, most of the power generating companies are facing severe cash flow mismatches due to huge pending receivables from DISCOMs. To alleviate such cash flow stress, it would be prudent if Usance LC is considered by Coal companies for payment purposes. Such LC shall provide a credit period say 180 days. The steps followed in Usance LC are explained below.

Step-1: Buyer (Generating Co) request to Issuing Bank for Usance LC for 180 days.

Step-2: On scrutiny of documents bank will issue Usance LC in favour of Advising Bank

Step-3: Post issuance of LC, Advising Bank will advise to the Seller (Coal Co)

Step-4: Seller (Coal Co) will dispatch the goods to Buyer (Generating Co) as per the terms

Step-5: Post-dispatch of goods, Seller (Coal Co) will submit the dispatch documents to Advising Bank

Step-6: Advising bank will forward the dispatch documents to LC issuing bank.

Step-7: LC issuing bank will present dispatch document to Buyer (Generating Co).

Step-8: LC issuing bank will do the scrutiny of documents and convey the acceptance to the Advising Bank

Step-9: Post Confirmation from LC issuing bank to Advising Bank, proceeds will be credited to Seller (Coal Co) account by the Advising Bank.

Step-10: Advising Bank will request LC issuing bank for payment at maturity.

Step-11: LC is replenished after 180 days from the date of payment after settlement of A/c between LC issuing bank and Advising Bank.

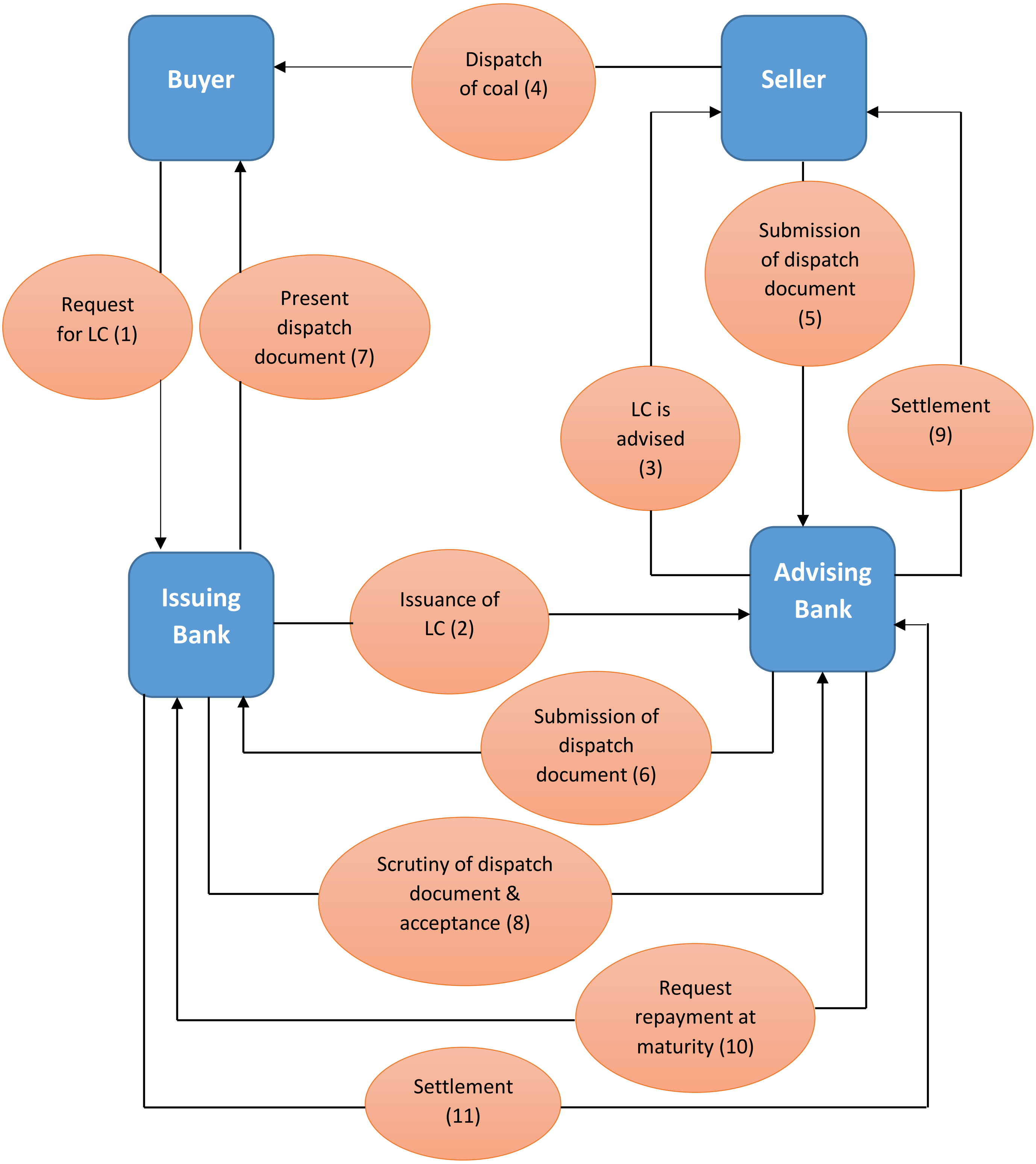


Fig 5.4: Process flow in Usance LC

5.3 **Other recommendations**

5.3.1 Generating Companies have been complaining that DISCOMs are not following provisions of the PPA by not providing LC or Escrow account. However, perhaps none of them have taken legal recourse to force DISCOMs to comply with the provisions of PPA. Generating companies must look into the possibility of legal remedies to enforce their rights under PPA.

5.3.2 Reforms in the management structure of the DISCOMs and accountability of the SERCs are essential. A simple step such as regular filing and disposal of petition for tariff revision does not get implemented in the absence of such reform.

In this context, it may be pointed out that the full bench of Appellate Tribunal for Electricity in its order dated 11th November 2011 had inter-alia directed that in the event of delay in filing of the ARR, truing-up and Annual Performance Review, one month beyond the scheduled date of submission of the petition, the State Commission must initiate suo-moto proceedings for tariff determination in accordance with Section 64 of the Act read with clause 8.1 (7) of the Tariff Policy.

It is pertinent to note that the aforesaid order was passed in response to a letter dated 21.1.2011 from the Ministry of Power through its Secretary addressed to the Chairperson of the Tribunal complaining that most of the State distribution utilities have failed to file annual tariff revision petitions in time and as a result in a number of States, tariff revision has not taken place for a number of years and that State Commissions constituted all over India have also failed to make periodical tariff revisions suo-moto resulting in the poor financial health of the State distribution utilities.

In spite of the order from the Appellate Tribunal for Electricity, filing of tariff petitions by DISCOM or suo-motu proceedings by SERCs for tariff determination is not taking place on regular basis contributing to build-up of ACS-ARR gap. Government can take up the matter with Forum of Regulators or may consider approaching Appellate Tribunal for Electricity again.

5.3.3 In order to tackle the problem of huge overdues from Government Departments to the DISCOM, which in turn affect the latter’s ability to pay to the generating companies, State Governments should formalize an arrangement for direct transfer of bill amount to DISCOM from budget allocation of that Department. In this regard, a scheme has been formulated in Odisha, which does not seek direct transfer from the budget allocation but envisages electronic platform to expedite the payment of due amount by the Government Departments. This model can be adopted by all the states.

Odisha Model of electronic payment by Government Departments

The current process for payment of electricity dues of State Government Offices in Odisha is being done through drawal of cash by the respective DDOs against the bill amount on receipt of manual electricity bill. This process involves manual intervention at many stages which consumes substantial time resulting in failure on part of some of the offices to avail the discount. Secondly, in some cases, due to delay in payment, the Delayed Payment Surcharge (DPS) is an additional financial burden on the State exchequer. Due to these difficulties, it is decided to switchover to an electronic platform for receipt of electricity bills by DDOs and payment as well as monitoring online using IFMS platform.

The switch over to the said electronic platform for payment of electricity bills will involve the following processes:

1. *Receipt of electricity bills by DDOs through online interface in the Integrated Financial Management System (IFMS) of the Government of Odisha.*
2. *Financial sanction through usual process.*
3. *Preparation of bills by DDO by printing and submitting the bill. The consumer number and Bank details of the DISCOMs will be mapped subsequently.*
4. *In case of dispute relating to the bill, the DDO shall make payment of the disputed bill which will be adjusted subsequently in case of any revision.*
5. *The acknowledgements / electronic money receipt would be available through the DDO interface link of IFMS.*
6. *The common portal of DISCOMs will provide historical analysis of energy consumption data and help in estimating future fund requirement.*
7. *Arrangements have been made between the IFMS and the Billing and Collection application systems of the DISCOMs through the Nodal Agency GRIDCO for sharing of consumer-wise monthly electricity bills to the Head of Office and their subsequent payment using the electronic platform of RBI directly to the designated Bank account of the DISCOMs.*

***Benefits of above process**: Timely payment of electricity dues, proper accounting, monitoring and preparation of realistic estimate of budget requirement.*

The process for payment of electricity bills through e-platform was supposed to be started on pilot basis from 1/1/2019 and implemented fully from 1/2/2019. Further, the dateline for full implementation was extended to 1/4/2019 due to delay in compliance by some stakeholders. However, we understand that the proposed mechanism is yet to be implemented at the time of submission of the report.

Annex-A

No.20/2/2019-IPDS
Government of India
Ministry of Power
*****

Shram Shakti Bhawan, Rafi Marg,
New Delhi, Dated: **31/01/2019**

Office Memorandum

Subject: Constitution of Committee to look into the issue delayed payments by DISCOMS to GENCOs/IPPs.

****

Delayed payments by DISCOMs to GENCOs/IPPs has been engaging the attention of this Ministry for quite some time now. The current transactional structure of Power Sector Payments involves advance payments by GENCOs to the Coal Sector and payments by DISCOMs to GENCOs after Power dispatch and invoicing. This may have an effect on stressing the working capital cycle of GENCOs.

2. This Ministry has already issued an advisory to all States/ DISCOMs for progressively moving towards prepaid smart metering for all consumers in the next three years. In this regard, a view has emerged that the payments from DISCOMs to the GENCOs may also be moved towards a prepaid system.

3. In this connection, it has been decided to constitute a committee to deliberate on the following terms of reference:

a. To study the working capital cycles of DISCOMs and GENCOs with respect to Power procurements for all competitively bid and Regulated PPAs, and identify gaps, if any contributing to the GENCO stress;
b. To study the frameworks of the rules and regulations in regard to payment mechanisms and transaction structures across the Power Sector value chain currently; and,
c. To explore possibilities and suggest a mechanism for prepaid system of transactions from DISCOMs to Generators for power purchase within the framework of extant rules and regulations.

4. The members of the Committee would be:-

a. Chairperson CEA – Chairperson of the Committee
b. CMD MSEDCL - Member
c. CMD TANGEDCO - Member
d. Director,IPC, MoP-Member
e. Representative of Association of Power Producers (APP) - Member
f. Representative of Independent Power producers association of India (IPPAI) - Member

5. The Committee would submit its recommendations to this Ministry within one month of issue of this letter.

6. This issues with the approval of MoS(IC), Power.

31/1/19
(G. Swan Za Lian)
Under Secretary to the Govt. of India
Tele.-011-23708051

To
1. Chairperson, CEA(Email:- chair.cea@nic.in)
2. MD, MSEDCL(Email:- mdmsedcl@gmail.com)
3. CMD, TANGEDCO(Email:- chairman@tnebnet.org)
4. DG, APP(Email:-akhurana369@appindia.org.in)
5. DG, IPPAI(Email:-harrydhaul@gmail.com)

Copy to:-
1. PPS to Secy., (P)/ PPS to AS(SNS), Ministry of Power
2. PPS to JS(Dist.), Ministry of Power
3. PS to Director (Distribution), Ministry of Power
4. GM, APDRP Cell, Ministry of Power

Annex-B

MINUTES OF FIRST MEETING OF THE COMMITTEE CONSTITUTED TO LOOK INTO THE ISSUE OF DELAYED PAYMENT BY DISCOMs TO GENCOS/IPPS.

1. The first meeting of the committee constituted by Ministry of Power to look into the issue of delayed payment by DISCOMs to GENCOs/IPPs was held on 06.02.2019 in the Conference Room (MANTHAN), 2nd floor, CEA at 02:30 PM. The meeting was chaired by Chairperson, CEA. Other members of the committee who attended the meeting are as under:
   a) Sh. Vikram Kapur, CMD TANGEDCO
   b) Sh. A.K Khurana, DG, APP
   c) Sh. Raghvendra Upadhaya, Chief Knowledge Officer, Representative from IPPAI

2. CMD MSEDCL and Director, IPC, MoP could not attend the meeting. The list of the participants is **Annexed**.

3. Chairperson, CEA welcomed the participants. He proposed to co-opt Member (E&C), CEA as a member and Chief Engineer (F&CA), CEA as Member Convener of the committee. **He also proposed to have wider consultation with stakeholders. This was agreed to be the members of the Committee.**

4. The Committee agreed to restrict itself primarily to work on recommendation in line with the terms of reference (ToR) only. However, it was also agreed that if the committee comes to the conclusion that a recommendation may go a long way in resolving the issue of delayed payment, the same may be considered even if it was not strictly in accordance with the ToR.

5. DG (APP) stated that GENCOs/IPPs are facing huge problem due to delayed payment by the DISCOMs. He added that there is a huge amount of about Rs. 25,000 Cr, which is outstanding beyond two months and the payment security mechanisms specified in the PPA such as Escrow account and LC are not operational. He pointed out that a high proportion of this outstanding is attributable to only few states. Most of the outstanding amount is towards IPPs, though he mentioned that this is partly due to the fact that in case of competitively bid projects under Section 63 of the Act, the time allowed to make payment is one month whereas for those under Section 62 of the Act, the allowed time is 2 months. He informed that Banks/FIs provide working capital loan as per this period specified in the PPA and therefore delayed payment affects the working capital cycle of GENCOs, ultimately affecting feasibility of operating the power station.

6. DG (APP) further added that it will take at least 3 to 4 years for implementation of pre-paid meters at the retail level and till then we have to find some short-term solution. He added that there is a huge outstanding amount in renewable sector also, which is not covered in the PRAAPTI. He opined that unlike UDAY, there may be need to draw state specific plans for ensuring financial viability of DISCOMs. He also suggested to refer an earlier scheme (R-APDRP) where a provision of 50% support to DISCOMs on cash basis was made.

7. Representative of IPPAI suggested to work on a model similar to that suggested by Ahluwalia Committee for recovery of dues of CPSUs. In this model, there was provision for direct appropriation by RBI on the basis of a tripartite agreement between erstwhile SEB, State Government and RBI. DG(APP) broadly supported this view. He stated that in case of IPPs direct appropriation may not be possible but suggested that the bill discounting by PFC/REC as recommended by HLEC should be adopted with provision for appropriation to make payment to PFC/REC if their dues are not paid by DISCOMs.

8. CMD (TANGEDCO) pointed out the problems faced by the DISCOMs. He stated that though ACS-ARR gap has come down after implementation of UDAY, the financial crisis of DISCOMs shall continue till ACS-ARR gap gets bridged fully. He stated that though 75% of the debt was taken over by state governments under UDAY, the debt has started increasing thereafter as state government have stopped supporting and DISCOMs have to borrow to support their operations. He opined that equity infusion along with further push for UDAY is the solution. It was also pointed out that in some states, periodic tariff revision is not taking place contributing to ACS-ARR gap.

9. CMD (TANGEDCO) further mentioned that problems of renewable rich states like Tamil Nadu have increased significantly due to recent changes made by CERC in the regulations regarding Deviation Settlement Mechanism. He also pointed out that the Government Departments/Local bodies across the States have a huge outstanding dues to DISCOMs and recovery of this amount will greatly ease financial difficulties of DISCOMs, which in turn would facilitate payment to GENCOs. He gave the example of Orissa where the amount payable by local bodies/ Governments Department is appropriated and credited to the account of DISCOMs. He stated that pre-payment by DISCOMs to Gencos may not be implemented in isolation. This option fits in of the whole value chain in the power sector is on cash and carry basis.

10. CMD (TANGEDCO) stated that if pre-payment to Gencos is made mandatory, DISCOMs may have to opt for load shedding in the absence of enough cash to make pre-payment. **He was of the view that the basic problem faced by the DISCOMs is that revenue is not enough to meet the expenditure and that the working capital cycle per se is immaterial. This view was supported by others members as well.**

11. It was decided that the Orissa Model regarding direct transfer of electricity dues by Government Departments to DISCOMs would be explored in detail.

The meeting ended with vote of thanks to the chair.

****

Annex

LIST OF PARTICIPANTS

1. Sh. P.S. Mhaske, Chairperson, CEA ……..In Chair
2. Dr. Somit Das Gupta, Member (E&C), CEA
3. Sh. Ajay Talegaonkar, Chief Engineer (F&CA), CEA
4. Sh. Rajesh kumar, Director (F&CA), CEA
5. Ms. Bhoomika Banga, Assistant Director, (F&CA), CEA
6. Sh. Vikram Kapur, CMD, TANGEDCO
7. Sh. A. K. Khurana, DG, APP
8. Sh. Raghvenda Upadhyaya, Chief Knowledge Officer, IPPAI
9. Sh. S. Bala ji, Head Strategy Policy Advocacy
10. Ms. Deepika Sehgal, REP of IPPAI

Annex-C

MINUTES OF THE SECOND MEETING HELD ON 18.02.2019 OF THE COMMITTEE ON THE ISSUE OF DELAYED PAYMENT BY DISCOMS TO GENCOS/IPPS.

1. The second meeting of the committee constituted to look into the issue of delayed payment by DISCOMs to GENCOs/IPPs was held on 18.02.2019 in the Conference Room (MANTHAN), 2nd floor, CEA at 03:00 PM. List of the participants is **Annexed**.

2. Chairperson, CEA welcomed the participants. He then requested Chief Engineer (F&CA), CEA to take up the proceedings.

3. Chief Engineer (F&CA), CEA briefed about terms of reference of the Committee and also about the discussions held in the first meeting of the Committee held on 06.02.2019.

4. DG (IPPAI) stated that the fundamental issue faced by the DISCOMs is that they are unable to recover their fixed cost. He stated that in spite of reforms and restructuring taking place since 1990's, the bulk tariff has always shown increasing trend. Since significant cost of DISCOMs is attributable to power purchase, there is need to look into ways of reducing bulk tariff. He further added that the DISCOMs are generally unable to recover revenue from the rural areas, which is about 15-20% of the total revenue. This is the area where State Governments must support DISCOMs.

5. VP (APP) stated that there are several problems for GENCOs. Dwelling into the ToR of the Committee, he stated that Gencos are required to make advance payment to CIL, which is about 45-60 days in advance for linkage coal. He mentioned that in case of e-auction coal, the coal may be received after about 8 months of making the payment. Further, he mentioned that though time limit for making payment is 30 days in case of competitively bid projects and 60 days for projects under Section 62 of the Act, some DISCOMs not maintain such distinction and insist on 60 days' limit for all projects. He mentioned that many IPPs are selling electricity through PTC and therefore suggested that PTC should also be invited to the next meeting. This was agreed to by the members.

6. VP (APP) was of the view that the committee should recommend some immediate plans and some medium/long term plans to recover the outstanding dues of GENCOs. He stressed that the issue related to pre-payment by DISCOMs to GENCOs need to addressed but as it may take longer time so the immediate measures by way of implementing the contract terms would be a viable option. In this regard, he suggested that LC may be opened and made functional by all the DISCOMs in favour of generators and payment commitment within 30 days should be strictly honoured. Tariff Policy also provides for fiscal discipline among DISCOMs to strengthen their financial position. Further, he also supported for one-time equity infusion by the government through REC/PFC. For the medium/long term plan, he suggested pre-paid mechanism for the entire value chain.

7. Joint Director (TANGEDCO) stated that their views were already expressed by their CMD in the previous meeting.

8. CE (WBSEDCL) stated that they are maintaining 24*7 power supply in their State and generally pay their dues on time. He added that they have pre-paid meters for Government Departments which comprises about 15% of their dues. However, it will be difficult to implement it for entire consumer base. Further, he added that major part of their ACS-ARR gap is only because of delay in receipt of subsidy from the government.

9. Director, Finance (PVVNL), UP mentioned that due to commitment for UDAY, it is not possible to raise funds. Support from Government is also not available and cash loss is about Rs. 11000 Crore. He informed that one-time settlement scheme for recovery from consumers is being launched and is expected to fetch about Rs 17,000 crores. This, he said, will help to clear the outstanding dues of DISCOMs. He also stated that billing and collection efficiency has improved a lot. He further stated emphasis on increasing the number of hours of supply and dismal recovery from certain area will pose a challenge. Feeder segregation process has started in UP so that only the desired amount of supply can be given to the agricultural areas and online billing system for rural has also started. He added that they have also installed pre-paid meters in some areas. Government is providing full support for improving the revenue collection by DISCOMs. The fresh loans of about Rs. 1200 Cr and Rs 1300 Cr. from REC and PFC are under pipeline for system improvement.

10. CE, MSEDCL stated that they had paid all the bills of IPP and the details being shown on the PRAAPTI portal are not fully correct as they are not mentioning the disputed claim separately. He questioned the need for pre-payment by DISCOMs to Gencos when interest on working capital is part of the tariff. Further, the problems of GENCOs mainly lie on the delay from the coal supplier, railway and to some extent on grade slippage. So, DISCOMs solely can’t be blamed for any loss on account of these and matter may be taken up with concerned authorities to sort out these issues. He opposed the idea of pre-paid meters for all within three years of time as it involves huge capital expenditure and requires a large manufacturing capacity for such a large number of meters which is not feasible within such a short span of time. He stated that about 20% of the consumers are from rural area and recovery of dues from these consumers is a challenge. He also mentioned that there is generally a delay in receiving subsidy from government. He added that MSEDCL has maintained LC for GENCOs.

11. Director, Finance (JdVVNL) shared experience of pre-paid metering with Government Departments/ local bodies. He stated that the experiment was failure as disconnection of supply is difficult even if the amount is not recharged by them. He mentioned that they are making regular payments to Gencos. Tariff revision also takes place every year but subsidy receipt from the government is an issue. He informed that Government Departments owe Rs 877 crore to the DISCOMs. He stated that generally payments are being made to all the Gencos except to state Genco.

12. Chief Finance Manager (GUVNL) stated that there are no outstanding dues in Gujarat. They are taking full benefits by availing all the rebates by making advance payments

and they are continuously under profit for last 10 years due to the support from government by getting subsidy amount in time and from commission by timely passing the cost of power through periodic tariff revision. He added that in Gujarat, there is thrust on efficient procurement of power and they believe in merit order scheduling. For this, they treat fixed cost as sunk cost and focusing on variable cost only. They also have a substantial quantum of Solar and Wind power generation.

13. The Committee decided to continue the consultation process and invite some more DISCOMs to the next meeting.

14. The meeting ended with vote of thanks to the chair.

****

Annex

LIST OF PARTICIPANTS

1. Shri P.S. Mhaske, Chairperson, CEA …. In Chair
2. Dr. Somit Das Gupta, Member (E&C), CEA
3. Shri Ajay Talegaonkar, Chief Engineer (F&CA), CEA
4. Shri Rajesh Kumar, Director (F&CA), CEA
5. Ms. Bhoomika Banga, Assistant Director, (F&CA), CEA
6. Shri Harry Dhaul, DG, IPPAI
7. Shri Dinesh Batra, Vice Prisedent, APP
8. Shri Girish Deveshwar, Associan of Power Producers
9. Shri P. Muthiah, Joint Director, TANGEDCO
10. Shri Sanjay Mathur, Chief Finanace Manager, GUVNL
11. Shri P.P. Mukherjee, Chief Engineer PTP, WBSEDCL
12. Shri P.K. Agarwal, Director Finance, UPPCL
13. Shri Paresh Bhagwat C.E. (Power Finance), MSEDCL
14. Shri Peeyush Sawariya, M.D., Rajasthan Power Dev. Corporation
15. Shri M.S. Palawat, Director (Finance), Jaipur Vidyut Vitaran Nigam ltd

<u>Annex-D</u>

MINUTES OF THE THIRD MEETING HELD ON 22.02.2019 OF THE COMMITTEE ON THE ISSUE OF DELAYED PAYMENT BY DISCOMS TO GENCOS/IPPS.

1. The third meeting of the committee constituted to look into the issue of delayed payment by DISCOMs to GENCOs/IPPs was held on 22.02.2019 in the Conference Room (MANTHAN), 2nd floor, CEA at 11:30 AM. List of the participants is **Annexed**.

2. Chairperson, CEA welcomed all the participants. Since some of the participants came for the first time, he requested Chief Engineer (F&CA), CEA to brief the participants about discussions in the first two meeting.

3. Chief Engineer (F&CA), CEA briefed about terms of reference of the Committee to newly joined participants and also about the discussions in the previous two meetings of the Committee held on 06.02.2019 and 18.02.2019 respectively.

4. MD, Power Company of Karnataka Limited (PCKL), Karnataka stated that the outstanding dues of Government Department/Local Bodies are very high. In response to a query, she stated that ACS-ARR gap is very high for all the DISCOMs in Karnataka. She informed that in one of the meetings of the advisory committee, their regulator had suggested them to approach the head of each government department for liquidation of dues directly from budget head of concerned department. She further added that there is no dearth of energy in Karnataka as huge RE penetration of about 13000 MW is now available with them and even they are selling power in Power Exchange also. She also stated that pre-paid metering has been started on trial basis for temporary installations only. She further informed that periodic tariff revision has been taking place regularly. She was of the opinion that pre-payment by DISCOMs to the Gencos may not be possible unless prepaid metering gets fully implemented at retail level also.

5. Resident Engineer, Bihar State Power Holding Company Limited (BSPHCL), BIHAR stated that as currently their state assembly session is going on, their officer concerned could not come for this meeting. However, they will submit their detailed observations on the issue very shortly. He however, mentioned that prepaid metering for government departments is being implemented in Bihar.

6. Director (PTC) stated that they are involved in the trading of about 65 BU of energy across the country for a total amount of Rs. 20,000 Cr approximately. At present, their total outstanding from DISCOMs is about Rs 4700 Cr, out of which Rs 3000 Cr has already been paid to Gencos through PTC own resources. There are six to seven states having huge outstanding of three to six months. He suggested that pre-paid metering should be must for Government Department/Local Bodies and Industries. He also insisted for the provision of LC for short-term contracts and PPA for RE and Case-1 bidding. He further stated that regulators are taking a lot of time to decide the cases of change in law which is aggravating the situation. In some cases, PTC is having outstanding dues for ten months.

7. The representative from APP stated that Gencos have to make up-front payments for coal and rail freight while there is no provision of LC in case of short term PPA. While granting working capital, Banks always consider the receivables for three months only whereas DISCOMs make payment in 90 to 270 days. Further, the issue of taxes and duties, which always have to be paid in time is dragged by DISCOMs in legal battle. This puts lot of burden on working capital of Gencos. He suggested that DISCOMs who are not paying their dues in time may be debarred from procurement of power through power exchange and also should be denied open access to buy power from any other source. He also suggested that subsidy amount not paid by the state government should be directly transferred to Discom out of the devolutions to be made from Central Government to the State Government concerned.

8. The IPPAI representative stated that PRAAPTI portal should be expanded to reflect the outstanding dues of 30, 60 and 90 days separately for all Central, IPP and Captive plants to give more clear picture. Similarly, the amount under dispute or payment claims due to change in law issue may also be reflected separately.

9. The Committee decided to prepare a draft report based on deliberations held so far. It was also decided that the draft would be circulated to members and other stakeholders which were invited by the committee for consultation.

The meeting ended with vote of thanks to the chair.

****

Annex

LIST OF PARTICIPANTS

1. Shri P. S. Mhaske, Chairperson, CEA …. In Chair
2. Dr. Somit Das Gupta, Member (E&C), CEA
3. Shri Ajay Talegaonkar, Chief Engineer (F&CA), CEA
4. Shri Rajesh Kumar, Director (F&CA), CEA
5. Shri Nimish Kumar, Assistant Director-II, (F&CA), CEA
6. Shri Ajit Kumar, Director, PTC India Ltd.
7. Shri Raghvendra Upadhya, IPPAI
8. Shri Molay Maitra, APP
9. Shri Girish Deveshwar, APP
10. Ms. H K Bharathi, MD, PCKL, Karnataka
11. Shri Umang Anand, Resident Engineer, BSPHCL, Bihar

Annex-E

Details of Subsidy booked and Subsidy received in the country during the years 2016-17 and 2017-18

Region	State	Utility	2016-17		2017-18	
			Total Subsidy Booked	Total Subsidy Received	Total Subsidy Booked	Total Subsidy Received
Eastern	Bihar	NBPDCL	1,514	1,514	1,292	1,292
		SBPDCL	2,320	2,320	889	1,787
	Jharkhand	JBVNL	1,200	1,200	3,000	3,000
	Odisha	CESU	-		-	
		NESCO Utility	-	-	-	-
		SESCO Utility	-	-	-	-
		WESCO Utility	-	-	-	-
	Sikkim	Sikkim PD	-		-	
	West Bengal	WBSEDCL	750	600	912	1,024
North Eastern	Arunachal Pradesh	Arunachal PD			-	
	Assam	APDCL	395	371	951	1,088
	Manipur	MSPDCL	-		-	
	Meghalaya	MePDCL	23	23	-	-
	Mizoram	Mizoram PD	-		-	
	Nagaland	Nagaland PD	251	251	-	
	Tripura	TSECL	40	40	30	
Northern	Delhi	BSES Rajdhani		-	-	-
		BSES Yamuna		-	-	-
		TPDDL				
	Haryana	DHBVNL	2644	2,644	3,043	3,043
		UHBVNL	3,965	3,965	4,560	4,560
	Himachal Pradesh	HPSEB Ltd.	-	-	-	-

	Jammu & Kashmir	J&K PDD	1728	1,200	NA	NA
	Punjab	PSPCL	6,177	5,601	8,288	6,578
	Rajasthan	AVVNL	2,750	2,409	2,934	2,601
		JDVVNL	4,643	3,894	5,013	4,441
		JVVNL	3,181	2,253	3,733	2,529
	Uttar Pradesh	DVVN	2,244	1,952	2,483	1,865
		KESCO	33	33	11	11
		MVVN	764	764	1,352	1,352
		Pash VVN	1,466	1,466	966	966
		Poorv VVN	2,231	1,945	2,091	1,681
	Uttarakhand	Ut PCL	-	-	-	-
Southern	Andhra Pradesh	APEPDCL	136	136	512	221
		APSPDCL	3,153	2,563	4,167	2,529
	Karnataka	BESCOM	2,084	1,895	-	-
		CHESCOM	1,548	1,297	1,435	1,189
		GESCOM	1,732	1,701	NA	NA
		HESCOM	3,313	3,106	3,845	3,295
		MESCOM	781	570	898	645
	Kerala	KSEBL	-	-	-	-
	Puducherry	Puducherry PD	-		-	
	Tamil Nadu	TANGEDCO	10,485	10,485	12,505	12,505
	Telangana	TSNPDCL	3,377	3,377	4,125	3,330
		TSSPDCL	1,033	1,033	962	598
Western	Chattisgarh	CSPDCL	700	700	563	563
	Goa	Goa PD	-		-	
	Gujarat	DGVCL	59	59	49	49
		MGVCL	79	79	74	74
		PGVCL	444	444	455	455
		UGVCL	550	550	542	542

	Madhya Pradesh	MP MKVVCL	1,909	1,968	2,259	2,273
		MP PaKVVCL	3,725	4,013	4,318	4,388
		MP PuKVVCL	1,103	1,112	1,273	1,282
	Maharashtra	MSEDCL	7,781	6,231	9,015	8,744
Grand Total			82,311	75,764	88,545	80,500