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UP discoms could save INR 900 crores annually by purchasing power from cost-efficient plants: CEEW

New Delhi, 7 July 2020: Strict adherence to merit order dispatch (MOD) could result in potential savings of INR 900 crores annually for discoms in Uttar Pradesh, according to an independent study released today by the Council on Energy, Environment and Water (CEEW). MOD is a process via which discoms prioritise the purchase of power from the most cost-efficient plants. Currently, discoms often deviate from MOD due to a range of issues including poor coal availability at some low-cost generating stations, inefficient operational scheduling, and an inherent preference to have state-owned generators dispatch on account of flexible payment terms. Uttar Pradesh's discoms highlighted a revenue deficit of INR 4500 crore in their recently filed annual revenue requirements for FY 20-21.

Power purchase costs account for 75–85 per cent of the total annual expenditure of UP discoms. Trimming down power purchase costs, especially adherence to MOD, would be crucial to address this revenue deficit. The CEEW study, based on an assessment of the Ujwal Discom Assurance Yojana (UDAY) scheme, also found that discoms in Uttar Pradesh had lost more than INR 80 paise on each unit of electricity sold in recent years.

Karthik Ganesan, Research Fellow at CEEW, said, "Consumer demand for electricity and their ability to pay timely has been hit due to the ongoing COVID-19 pandemic in the state. Hence, the need to weed out inefficiencies in the procurement process is even more necessary now. Given the tremendous challenges with augmenting revenue, the default option for the discom is cost reduction. An important step would be ensuring the reallocation of coal between the various plants that the state procures from. This would ensure that the most efficient plants are generating as much as technically possible. The state government, the Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (UPRVUNL), and UP discoms should come together to rationalise coal availability and prices."

The CEEW study also highlighted that Uttar Pradesh's discoms incurred INR 3000 crore in FY 18-19, nearly six per cent of their total procurement cost, just as stranded fixed charges to three recently contracted generation sources. This payout is likely to climb up to INR 10,000 crore by FY 2023 with the new generation capacity addition plan. The state's discoms must better utilise stranded assets, consider buying surplus electricity from neighboring states, and explore other such alternatives before contracting or commissioning new capacity.

Prateek Aggarwal, Programme Associate at CEEW, said, "In India, Uttar Pradesh's discoms accounted for 15 per cent of all outstanding dues to generators. Transparency in disclosing costs would be key to availing relief under the *Aatma Nirbhar Bharat Abhiyan*, where INR 90,000 crore has been announced to help discoms pay generators. Uttar Pradesh's regulator must also recognise all costs and losses appropriately. Further, the financial health of discoms is also dependent on the release of undisbursed additional subsidies from the UP government."

The study also highlights that the persisting gap between the average cost of supply and average revenue realised could be due to a high share of low-paying consumers, significant unmetering, and low billing and collection efficiencies.

The study 'Cost-effectiveness of Discom Operations in Uttar Pradesh: Impact of UDAY, Power Purchase Planning and Dispatch', can be accessed [here](#).

About CEEW

The Council on Energy, Environment and Water (CEEW) is one of Asia’s leading not-for-profit policy research institutions. The Council uses data, integrated analysis, and strategic outreach to explain – and change – the use, reuse, and misuse of resources. It prides itself on the independence of its high-quality research, develops partnerships with public and private institutions, and engages with wider public. In 2020, CEEW once again featured extensively across nine categories in the ‘2019 Global Go To Think Tank Index Report’. The Council has also been consistently ranked among the world’s top climate change think tanks. Follow us on Twitter @CEEWIndia for the latest updates.

Contact: Riddhima Sethi, riddhima.sethi@ceew.in; +91 9902039054
Mihir Shah, mihir.shah@ceew.in