Distribution Companies should turn the Tide by Going SMART

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State-owned electricity distribution companies (DISCOMs) continue to be plagued with financial problems. This is so despite efforts by both central and state governments to bail out the beleaguered DISCOMs with rescue packages. In a last-ditch effort, the Central Government announced INR 3.05 lakh crore in the Union Budget 2021–22 to redeem the utilities. This could very well turn out to be the last opportunity for DISCOMs to turn self-sustainable, given that the Central Government has already initiated privatisation of power distribution companies in union territories (UTs) such as Chandigarh, Daman and Diu, and Dadar and Nagar Haveli.

The argument behind privatisation is that it provides consumers with more choices for reliable and quality power supply, while curbing the financial and operational losses incurred by state-owned DISCOMs. While privatisation is likely to reform the distribution sector, creating accountability at the operational level is fundamental, be it a private or state-owned utility. This can be done only through a performance-monitoring mechanism with well-defined roles and responsibilities, including revenue accountability, for officials at the feeder level.

Dealing with losses

One of the major reasons for the financial distress of the distribution sector is its inefficiency in containing the aggregate technical and commercial (AT&C) losses at the lower levels. AT&C losses are a combination of technical losses (energy loss due to transmission and distribution, inefficient billing, meter tampering, theft/pilferage) and commercial losses (inefficient revenue collection). The average billing and collection efficiencies in India were 83.4% and 93.4%, respectively, in 2018–19. If the billing and collection efficiencies are maintained at 90% and 98%, respectively, all the DISCOMs in the country will become profitable. Even the IEA India Energy Outlook 2021 report stresses on the need to 'focus efforts on improving billing efficiency, collection efficiency, and reducing AT&C losses' for DISCOMs to become profitable.

SMART solution

The lack of accountability in state-owned utilities is due to the absence of well-defined roles and targets for the officials. The present performance monitoring mechanism — involving self-evaluation and a discussion between the employee and the reporting manager — is subjective and not a result-oriented approach.

To make the operational-level officials more accountable, key performance indicators (KPIs) should be assigned at each level of a DISCOM. These KPIs should be SMART — specific, measurable, achievable, relevant, and time-bound. One of the state owned DISCOMs in Haryana, Uttar Haryana Bijli Vitaran Nigam Limited (UHBVNL), adopted this method in 2016 by formulating successive KPIs for AT&C loss reduction at the organisational level. The KPIs under this DISCOM were finalised after considering both technical and commercial aspects of the AT&C losses. While billing and collection efficiency were covered under commercial aspects, parameters such as feeder overloading, DT failure rate, and DT overloading were covered under technical aspects. This, along with other measures, helped UHBVNL reduce its losses to 20% and earn a profit of INR 278 crores in just two years. In the international arena too, benchmarking exercises start with the selection of various KPIs related to the utility's day-to-day operations, including technical, operational and financial aspects.

Given that poor billing and collection inefficiencies are at the root of many issues in the sector, the KPIs need to address these. This includes inaccurate mapping of consumers to transformers and feeders, meter tampering, theft and pilferage, and low revenue collection. For instance, a junior engineer can have a KPI that instructs 'complete 100% feeder-transformer-consumer mapping of 20 feeders in three months', which is time-bound, relevant to improving billing & collection efficiency, measurable, achievable and very specific for the designated official. Accountability and efficiency at the operational level can improve the overall functioning of the DISCOMs.

Additionally, a revenue 'accountability and monitoring framework' for analysing the energy sales at the feeder level could be utilised. Each feeder could be given billing and collection targets based on its consumer mix and average billing rate, which would be then compared with the actual billing and revenue realised. The feeder manager would be responsible for reducing the discrepancies between the target and actual revenue. While the feeder manager could be encouraged with rewards and recognition for good performance, disincentive mechanisms will keep under-performance in check.

A reform/economic package alone cannot bring the distribution sector out of financial distress. For a robust and formidable foundation, officials at the operational level need to be made accountable. This alone can pull DISCOMs out of the present mess and put them on a path to recovery.

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