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# India's DISCOM Turnaround — Lessons from Power Sector Reform

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CURATED & WRITTEN BY

**Bharat Choudhary**

UPSC Educator & Content Creator •

linkedin.com/in/epicbharat

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# India's DISCOM Turnaround — Lessons from Power Sector Reform

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**INTERVIEW ANGLE**

*"India's distribution companies (DISCOMs) reported their first overall profit in years and AT&C losses fell to a historic low of 15.04% — what policy mix drove this turnaround, and what remains to be done before India's power sector can support a Viksit Bharat economy?"*

### WHY IN NEWS

India's power distribution companies (DISCOMs) reported a remarkable financial turnaround: **AT&C losses fell from 22.62% to 15.04%**, legacy dues declined from Rs 1,39,947 crore to Rs 4,927 crore, and the sector recorded **Profit After Tax of Rs 2,701 crore** in FY 2024-25 — the first overall profitability in years, achieved through a combination of debt restructuring, smart metering, and regulatory discipline.

## THE DISCOM PROBLEM — WHY IT MATTERS

India's power distribution segment — the "last mile" from high-tension grid to household socket — has been the weakest link in the electricity value chain since liberalisation. Despite India's successful generation capacity addition (now ~521 GW) and transmission upgrades, the distribution layer has been loss-making, technically inefficient, and politically distorted.

**The cycle of DISCOM failure:**

- State governments set **electricity tariffs below cost** (political populism)
- DISCOMs incur **losses** on every unit sold to households and farmers
- **AT&C losses** (theft, billing failures, unpaid bills) compound the loss
- DISCOMs build up **dues to generators and transmission companies** — called legacy dues
- Generators (NTPC, Adani Power etc.) face payment defaults
- Investment in distribution infrastructure falls → **quality deteriorates** → more losses
- Cycle repeats

**AT&C losses explained:**

- **Technical losses:** Heat dissipated in conductors; transformer inefficiencies (~5–7% is unavoidable)
- **Commercial losses:** Power theft (direct hooking), meter tampering, billing errors, collection failures
- India's AT&C loss of 22.62% (pre-reform) meant ~1 in 5 units generated was never billed or paid for — a massive implicit subsidy to inefficiency

## THE REFORM ARCHITECTURE

**Phase 1 — UDAY (2015): Ujjwal DISCOM Assurance Yojana** was the first comprehensive DISCOM rescue:

- States took over **75% of DISCOM debt** (transferred to state government balance sheets)
- Remaining 25% was converted to bonds
- DISCOMs committed to quarterly tariff revisions and AT&C loss reduction targets
- **Political impact:** By shifting debt to state governments, UDAY revealed the true fiscal cost of electricity subsidies — forcing greater transparency

**Phase 2 — Late Payment Surcharge (LPS) Rules (2022):**

- **Rule:** Generators can levy a monthly surcharge on overdue DISCOM payments
- **Impact:** Created a financial incentive for DISCOMs to pay on time; **legacy dues fell from Rs 1,39,947 crore (June 2022) to Rs 4,927 crore (January 2026)**
- This single rule change achieved more debt reduction in 3.5 years than UDAY did in 7

**Phase 3 — RDSS (2021-22 to 2025-26):** The **Revamped Distribution Sector Scheme** with **Rs 3,03,758 crore** outlay focuses on infrastructure:

- **Smart prepaid meters** for all consumers (300 million meters target) — eliminates billing fraud and enables real-time consumption monitoring
- Feeder segregation (separating agricultural feeders from household feeders) — enables metered supply to farmers while managing agricultural subsidy
- Distribution infrastructure upgrades (transformers, cables, sub-stations)
- **Result:** Smart meters create a direct demand-side discipline — consumers conserve more and billing leakage drops

## WHAT THE NUMBERS SHOW

| Metric | Before Reform | Current (2025-26) |
|---|---|---|
| AT&C losses | 22.62% | **15.04%** |
| Legacy dues (DISCOMs to generators) | Rs 1,39,947 cr (Jun 2022) | **Rs 4,927 cr (Jan 2026)** |
| DISCOM PAT | Chronic losses | **Rs 2,701 cr profit** (FY25) |

**Caveats:** The 15.04% AT&C loss is a national average. **Several state DISCOMs** (Bihar, Jharkhand, Uttar Pradesh, J&K) still have AT&C losses above 25%. The profitability is partly driven by high-performing states (Gujarat, Delhi, Mumbai) pulling the average up.

## WHAT REMAINS TO BE DONE

**Tariff rationalisation:** Most states still subsidise domestic and agricultural consumers below cost. Cross-subsidisation from commercial and industrial consumers makes Indian manufacturing electricity expensive (~Rs 7–9/unit for industry) — reducing competitiveness vs. China and Vietnam.

**Agricultural metering:** The political economy of free or flat-rate electricity for farmers (prevalent in Punjab, Telangana, Tamil Nadu etc.) makes AT&C loss measurement difficult. Separating subsidies (direct cash to farmers) from tariffs (accurate metering) is the solution — but electorally difficult.

**Private distribution:** Privatisation experiments (Delhi, Odisha, Bhiwandi) showed that private operators dramatically reduce AT&C losses. National rollout faces political resistance from DISCOM employee unions and state government control preferences.

**EV charging infrastructure:** The next DISCOM challenge is enabling 500 million EV charging points by 2030 (NITI Aayog target) without overloading existing distribution networks — requiring “smart grid” investments RDSS only partially addresses.

## UPSC RELEVANCE

> *AT&C losses (definition), UDAY (2015), RDSS (Rs 3,03,758 cr), Late Payment Surcharge Rules (2022), Smart Prepaid Metering, IPDS (earlier scheme), DISCOMs (Distribution Companies), feeder segregation.* **Mains GS-3:** *Power sector reforms; energy security; subsidies and fiscal federalism; private sector role in public utilities; smart metering and digital governance; EV infrastructure.*

## FACTS CORNER — KNOWLEDGEPEDIA

### DISCOM TURNAROUND — KEY NUMBERS:

AT&C losses: **22.62% → 15.04%**

Legacy dues: Rs 1,39,947 cr (Jun 2022) → **Rs 4,927 cr (Jan 2026)**

DISCOM PAT: Chronic losses → **Rs 2,701 crore profit** (FY 2024-25)

### REFORM SCHEMES:

**UDAY (2015):** States absorbed 75% DISCOM debt; quarterly tariff revision commitment

**LPS Rules (2022):** Monthly surcharge on late generator payments — drove legacy dues down

**RDSS (2021-22 to 2025-26):** Rs **3,03,758 crore**; smart meters (300M target), feeder segregation, infrastructure

**IPDS (earlier):** Integrated Power Development Scheme — replaced by RDSS

### AT&C LOSS = TECHNICAL + COMMERCIAL LOSSES:

Technical: Heat/resistance losses in cables and transformers (~5-7% unavoidable)

Commercial: Theft, meter tampering, billing errors, non-collection

### OTHER RELEVANT FACTS:

India installed power capacity: **~521 GW** (Feb 2026); non-fossil > fossil for first time

NTPC: Largest power generation PSU; ~70 GW installed

Electricity Act 2003: Opened generation to private players; mandated state electricity regulatory commissions (SERCs)

Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY): Earlier rural electrification scheme; subsumed into DDUGJY

Saubhagya Scheme: Last-mile household electrification (2017-2018); achieved 100% household coverage

Sources: Mint, Drishti IAS

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