REFLECTION PAPER

IS PRIVATISATION A PANACEA FOR INDIA'S ELECTRICITY DISTRIBUTION SECTOR?

August 2024

This document is a critique of the report titled "India's Private Power Market: Expanding Private Sector Electricity Distribution" – a publication of Centre for Strategic and International Studies.

CENTRE FOR ENERGY, ENVIRONMENT & PEOPLE

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Abbreviations and Acronyms

ACoS	Average Cost of Supply
ACS-ARR	Average Cost of Supply – Aggregate Revenue Realised
AES Corp.	Applied Energy Services Corporation
AT&C Losses	Aggregate Technical and Commercial Losses
BSES	Bombay Suburban Electric Supply
C&I Consumers	Commercial and Industrial Consumers
CESCO	Central Electricity Supply Company of Odisha
CSIS	Centre for Strategic and International Studies
Delhi NCR	Delhi National Capital Region
DGVCL	Dakshin Gujarat Vij Company Limited
Discoms	Distribution Companies
GERC	Gujarat Electricity Regulatory Commission
GRIDCO	Grid Corporation of Odisha
HERC	Haryana Electricity Regulatory Commission
INR	Indian Rupee
KSEB	Kerala State Electricity Board Ltd Limited
MGVCL	Madhya Gujarat Vij Company Limited
Delhi NCT	National Capital Territory of Delhi
NESCO	North Eastern Electricity Supply Company of Odisha
OERC	Odisha Electricity Regulatory Commission
PFC	Power Finance Corporation Limited
SOUTHCO	Southern Electricity Supply Company of Odisha
T&D Losses	Transmission and Distribution Losses
WESCO	Western Electricity Supply Company of Odisha

Executive Summary

Electricity distribution companies (Discoms) in India are plagued by operational and financial inefficiencies. Public sector ownership and management are often highlighted as the root of these inefficiencies, and consequently, privatisation is suggested as a panacea to improve their performance. Centre for Strategic and International Studies (CSIS) published a report titled 'India's Private Power Market: Expanding Private Sector Electricity Distribution', (hereinafter, referred to as 'the report') strongly advocating for privatisation of Discoms.

The report posits political interference of state governments as one of the primary reasons for the underperformance and financial woes of the sector. It highlights the success of private Discoms in alleviating their operational inefficiencies as shown by improvements in the aggregate technical and commercial losses. Despite the presumed success, the authors attempt to address the hesitation of policymakers towards privatisation through analysis of election results and exploring correlation between privatisation of discoms and the chance of re-election of the incumbent governments. It further suggests that incumbents are rewarded due to improvements in quality of service.

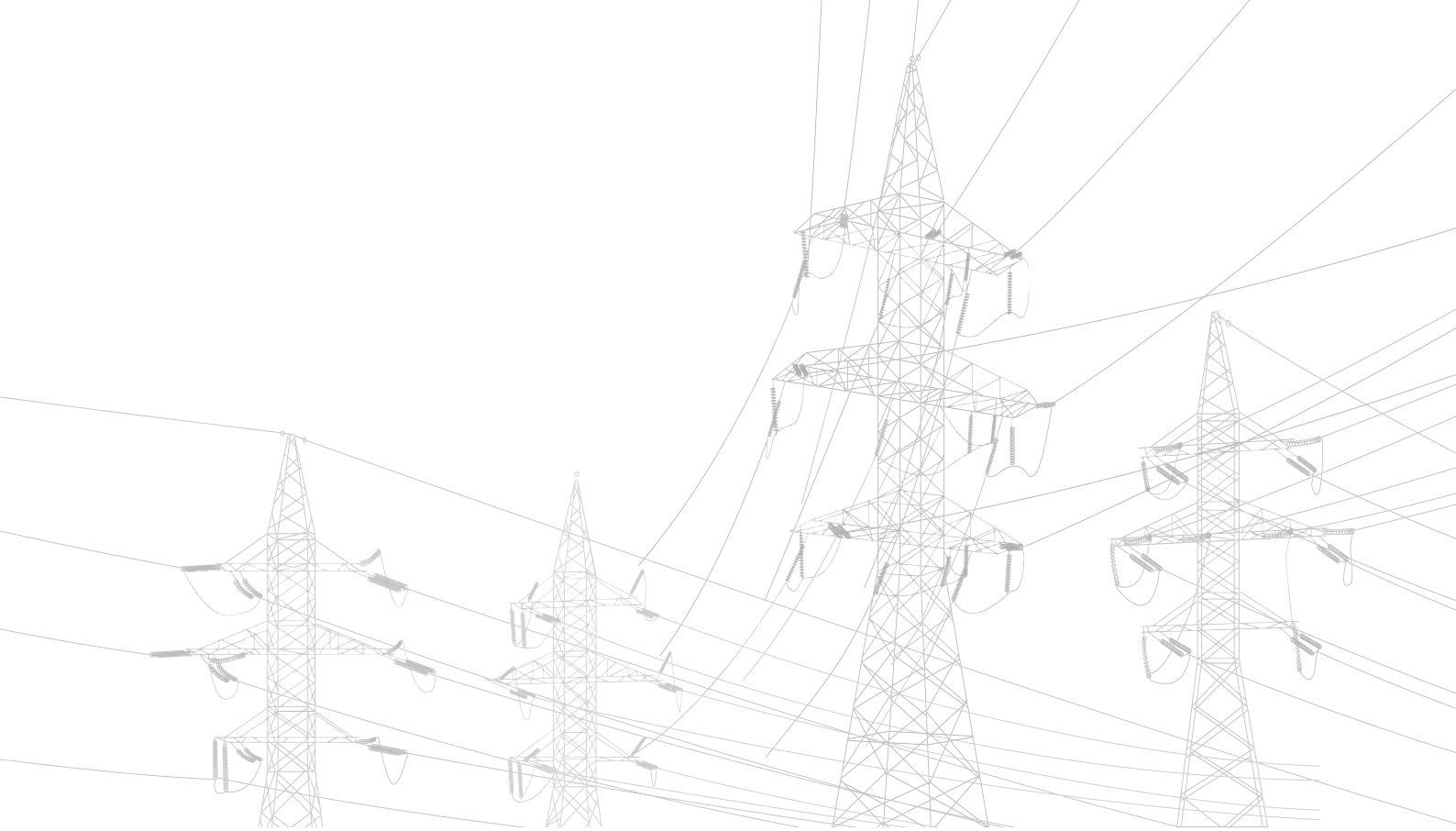
We acknowledge many concerns regarding the underperformance of public-sector-owned Discoms, however, we understand many of such issues may be attributed to structural, governance and political-economy challenges of the power sector. While we do not necessarily oppose private Discoms' participation in the distribution sector, we believe that the role of public Discoms and their challenges also demand a fair evaluation. However, the latter is not within the scope of this paper as it simply presents a critique of the methodology, analysis, and interpretations of the report published by CSIS.

First, the report celebrates the success of private Discoms in improving operational performance but overlooks their failure. The authors completely ignored the well performing state-owned utilities and failed private utilities to position privatisation as a measure for reforms. We further discuss the commendable performance of public Discoms like Chandigarh, Haryana, Gujarat and Kerala. Since privatisation in India is largely limited to urban areas, we also analyse the performance of private Discoms viz-a-viz performance of public Discoms in their respective urban areas.

The impact of cross-subsidisation on the health of Discoms is exaggerated in the report. We find that direct government subsidies are more critical for the financial and operational performance of Discoms (Section 4). While comparing the C&I tariff in India to the US, the authors argue that the said consumers in India are unfairly burdened. This argument perishes when India's C&I tariffs are compared to many other developed and developing countries, particularly Brazil, China and Germany.

Finally, electoral success is an outcome of complex interactions between social, cultural, economic, and political factors, hence impact of privatisation on election results can't be estimated with simple correlations. It demands more sophisticated statistical analysis and careful consideration of multiple variables before drawing such conclusions (Section 5). While Discoms face significant challenges and require urgent attention, these issues cannot be resolved by one-size-fits-all types of solutions like privatisation.

We hope that this exercise shall serve as a small contribution towards facilitating critical dialogues for power sector reforms.



1. Introduction

In January 2024, the Centre for Strategic and International Studies (CSIS) published a report titled, "India's Private Power Market: Expanding Private Sector Electricity Distribution" (Rossow & Singh, 2024) strongly advocating for the privatisation of the Discoms in India. The authors discuss the 'consistent underperformance' of the Discoms, the financial burden they impose on the state's finances, and the 'high performance' exhibited by private Discoms. The efficacy of privatisation is highlighted through instances of reduction in AT&C losses and improvement in billing and collection efficiency post-privatisation.

The authors strongly advocate for privatisation of the distribution sector as a promising solution for enhancing the sector's financial health, improving services, and reducing tariffs for Commercial and Industrial (C&I) consumers. This reflection paper critically reads CSIS's analysis and assertions in its report to enhance the discourse surrounding the challenges within the distribution sector and foster a comprehensive understanding of the issues. We specifically highlight fallacies in methodology, data employed, and analysis of privatisation in Odisha, evaluation of the performance of Discoms, comparison of global C&I tariffs, and the impact of privatisation on elections.

2. Main Arguments of the Authors of the Report

Authors have started with the argument that "persistent underperformance by most state-run electric power utilities has been a significant obstacle to meeting these [human development and economic growth] goals" (Rossow & Singh, 2024, p. 1). They further argued that "the power distribution sector is rife with challenges – including political interference, unreliable supply, fiscal mismanagement, and lack of capital expenditure" (ibid., p. 3). Hence, the central government has tried to improve the performance of Discoms through multiple reforms and financial assistance during the last two decades. However, these reforms had limited success due to "welfare redistribution policies (such as the provision of free electricity) and a complex regulatory environment" (ibid., p. 1). The "state governments often promise free or low-cost electric power as a political tool – which limits the effective operation of public sector discoms" (ibid., p. 2). On the other hand, "private sector distribution has proven to be a promising solution to improve the operational and financial performance of electricity distribution companies (discoms)" (ibid., p. 1). Hence, "opening up the sector to private players has shown merit and should be seriously considered by a larger number of state governments" (ibid., p. 5).

"Despite positive signs from privatised utilities, electoral considerations stemming from potentially higher power tariffs evoked a lukewarm response from the state governments" (ibid., p. 17), as "there is an underlying belief that it [Discom privatisation] has a negative impact on electoral performance" (ibid., p. 2). The authors have shown through analysis of assembly election results across seven states that "contrary to popular belief, privatisation has no effect on average voting patterns: the average percentage of incumbents voted out of power remains largely consistent in constituencies with private distribution when compared to the state average" (ibid., p. 2). Therefore, discom privatisation "could be part of a state government's tool kit to bring sustainable reforms to the distribution sector" (ibid., p. 3). They have concluded the report by providing a roadmap to state officials interested in discom privatisation.

3. Presumption and Selection Bias in the Approach

First, while the report celebrates the success of privatisation, it selectively ignores the cases where privatisation has not succeeded. For instance, the report illustrates that "as of April 2023, out of the 23 cases [of private discom franchisees] total, 15 had ceased operations; mismatch between government expectations and outcomes, as well as labour unions, have been cited as the cause." It shows that more than 65% of private utilities have ceased their operations due to various reasons. Further, they claim that the franchisee model of distribution privatisation as a viable and successful vehicle is also beset with multiple challenges. Of the 28 franchisees implemented in India, only 12 are currently operational (Chitnis, 2024b). The data shows that four of them have been forced to cease operations due to non-payment of energy dues and three of them were having unsatisfactory or sub-par performance (Chitnis, 2024, p. 12, Table 2). The authors of the report have selectively ignored the sub-par performance of private players to make a favourable case for the performance of private companies, and assert that, "barring a few exceptions, private sector companies have consistently been able to improve operational efficiency as noted by decreasing AT&C losses." It implies that authors have assumed that private companies are either bound to be efficient and perform better or ignored the conditions under which they fail or succeed.

Second, even in the case of success, they have completely ignored the role of factors like consumer mix, geographical terrain, and performance by the public discoms in similar conditions. For example, the National Capital Territory (NCT) regions of Delhi and Kerala display similarities in energy consumption and consumer demographics. The former is served by three private Discoms – Tata Power, BSES Rajdhani, and BSES Yamuna. In contrast, Kerala is served by Kerala State Electricity Board (KSEB Ltd), which is amongst the very few public-owned vertically integrated[1] entities still existing in the country. KSEB caters to the distribution requirements of the entire state, encompassing a significantly larger geographical area[2] and hilly terrain. Despite similarities in

1 Generation, transmission and distribution functions are handled by KSEB.

2 The consumption of electricity in Delhi NCT and Kerala was strikingly similar in FY21. The gross energy sold by the three private Discoms in Delhi NCT stood at 29,736 MU and KSEB sold 22,960 MU (PFC, 2022, p. 13 & 14). The energy distribution mix of both the regions showed domestic consumers at 58.74% and 55.83%, commercial consumers at 16.79% and 13.11%, agricultural consumers at 0.15% and 1.77%, industrial consumers at 10.28% and 4.78%, and others at 14.04% and 24.51%, respectively (PFC, 2022, p. 81 & 82).

energy consumption and consumer demographics between Delhi and Kerala, in FY 2021, private Discoms in Delhi reported AT&C losses of 8.87%, while KSEB recorded losses of 7.76% (PFC, 2022, p. 75 & 76). This discrepancy suggests that complex factors beyond the ownership type may play a significant role in performance outcomes. These omissions further indicate a bias in favour of privatisation without fully accounting for the complexities of the sector.

Third, private Discoms mostly serve the relatively well-off, accessible, and dense urban areas, and public Discoms typically cover expansive territories characterised by diverse consumer demographics, encompassing both rural and urban populations. Hence, it would be more relevant to compare the performance of public Discoms in urban areas with that of private Discoms. Eight of the country's 13 private Discoms operate in cities, with three private Discoms– Tata Power, BSES Rajdhani, and BSES Yamuna – operating in the Delhi NCT region alone. The Delhi National Capital Region (NCR) has another private Discom, the Noida Power Company Limited (NPCL). The three Discoms in the NCT region reported a 9.69% T&D loss in FY22 (CEA, 2023, p. 36). Whereas, in FY19, state-run Discoms reported comparable T&D losses in their respective urban areas – Bengaluru at 9.44%, Hyderabad at 10%, Jodhpur at 11.66%, and Visakhapatnam at 3.80% (CEA, 2020, p. 46, 66, 86 and 218)[3]. By saying "private sector participation is a promising solution for reforming the distribution space" (Rossow & Singh, 2024, p. 2) the report presumes that private sector distribution is inherently superior to public sector management without providing sufficient evidence to substantiate this claim.

Fourth, the report blanketly asserts better financial management by private discoms which is only a half-baked picture. There are at least four cases where private franchisees have failed to pay even energy charges to the generations and transmission companies (Chitnis, 2024b). In the case of Odisha, while the authors claim "poor baseline accounting and weak operational data provided by the government" (Rossow & Singh, 2024, p. 17) as cause of failure of privatisation, it has never been empirically established. At the same time, it should also be noted that AES even failed to pay salaries to their employees and other dues (TERI, 2002). Further GRIDCO claimed that BSES Odisha, owned by Reliance Infrastructure, had failed to pay INR 4,234 crores as energy and other charges,

3 The 19th Electric Power Survey conducted by Central Electricity Authority for the Megacities (CEA, 2020) comprised of input data till FY19 while the 20th Electric Power Survey conducted by Central Electricity Authority for the Delhi NCR (CEA, 2023) comprised of data till FY22. Accordingly, losses of different financial years have been used for the comparison between the two.

leading to the cancellation of their license (PTI, 2021). These examples demonstrate the assumption of better financial performance of private companies is not universally true, as many private companies have failed to improve the financial performance of discoms over fairly long tenures.

3.1. Case of 'Failure of Privatisation in Odisha'

The authors consistently argued that private discoms are high performers, overlooking crucial complexities and differences between them, particularly the distinct operational environments of urban and rural areas. For instance, Odisha's case of privatisation is the only one where there was a heterogeneous mix of consumers (urban, rural, domestic, non-domestic, industrial), which provides a unique opportunity to evaluate the impact of privatisation. Unfortunately, the authors selectively use data to wrongfully establish success in two cases of privatisation, i.e., 1999 and 2020, of electricity distribution in the state.

In 1996-97, Grid Corporation of Odisha's (GRIDCO) electricity distribution business was unbundled, divided into four regions, and corporatised as North Eastern Electricity Supply Company of Odisha (NESCO), Southern Electricity Supply Company of Odisha Ltd (SOUTHCO), Western Electricity Supply Company of Odisha (WESCO), and Central Electricity Supply Company of Odisha (CESCO). These Discoms were privatised in 1999 and Applied Energy Services Corporation (AES Corp.) took over the operations of CESCO in the same year. The other three entities came under the management of Bombay Suburban Electric Supply (BSES, later Reliance Infrastructure Ltd.) from 1999 to 2015 (TERI, 2002).

AES Corp. exited the business in 2001, forcing GRIDCO to take over the distribution operations for the Central Odisha region. Defending its performance in its short tenure, the authors blame poor baseline data provided by the government, which led to a perception of, and not actual, increase in distribution losses (Rossow & Singh, 2024, p. 17). However, the financial, organisational, and contractual issues of AES Corp. are ignored in the report. AES Corp. defaulted in payment of salaries to its employees and failed to pay for the power purchased. Instead of utilising the sectoral experience of senior employees it had acquired from GRIDCO, it recruited individuals with lesser experience at higher salaries and in senior positions (TERI, 2002). Moreover, the

Kanungo Committee, which was formed by the state government of Odisha to examine the performance of privatisation, found in its 2001 Report that AES Corp. (including Reliance Infra) had not only failed but also refused to bring in investments as per contractual obligations (Mahalingam, 2002). In the face of financial losses, AES Corp. decided to abandon the Discom in two years despite the contract period of five years (TERI, 2002). The report claims that "a catastrophic cyclone in Odisha in 1999 proved to be the final straw in the deteriorating situation of the state's newly privatized central discoms", and it ultimately led to the exit of private firms from Odisha. Thus, forcing the state-owned discoms in Odisha to intervene as the operators of last resort, despite being equally hit by the cyclone. Moreover, many public discoms across India, for example Kerala, Odisha, Assam, and West Bengal, continued their operations after large natural disasters, as they don't have an option to leave like private companies.

Further, in 2015, while cancelling the distribution licenses of Reliance Infra, Odisha Electricity Regulatory Commission (OERC) reprimanded the private agency for its failure to run the enterprise in a commercially sustainable manner (Mohanty, 2015). At the time of the revocation of their licenses in 2015, the three Discoms managed by Reliance Infra had an outstanding debt of nearly INR 4,234 Cr to be paid to GRIDCO – the deemed trading utility of Odisha at the time (PTI, 2021).

It may be noted that in 15 years, SOUTHCO managed to reduce the distribution losses by ~2% only (to 39%), while even the best performing private Discom in Odisha, NESCO, managed to reduce its distribution losses from 43.35% to 31.1% (Mohanty, 2015). In contrast, the publicly owned CESCO (operated by GRIDCO) reduced its distribution losses from 42.8% to 33.9% between 2005 and 2015 (OERC, 2007, 2015). After GRIDCO took control over all four distribution companies in Odisha, the distribution losses were brought down by more than 10% across all the Discoms within five years. It managed to reduce overall distribution losses from 34.46% to 17.44% and AT&C losses from 36.6% to 27.87% in the five years (OERC, 2022, p. 14).

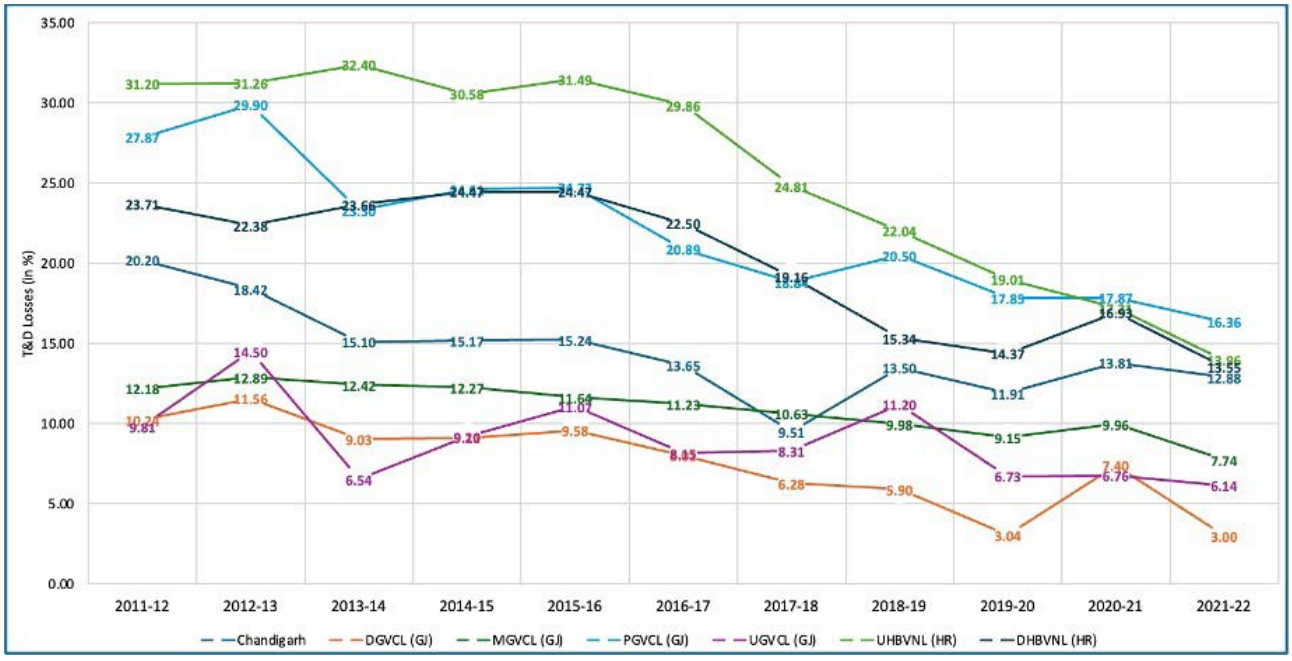
After being under public management for five years between 2015-2020, the four Discoms were privatised yet again in 2020 and 2021 when Tata Power took control over them (Livemint, 2021; The Hindu, 2021). While deliberating on the time required to make different models of private Discoms profitable, the authors use the ACS-ARR Gap to compare the performance of Discoms while under the management of GRIDCO and

Tata Power (Rossow & Singh, 2024, p. 27). The authors compare the ACS-ARR Gap of INR 0.60/kWh in 2018 (when GRIDCO managed the discoms) to INR 0.27/kWh in 2022 (when Tata Power managed the discoms) as evidence for the turn around period needed to make a discom profitable. However, ACS-ARR Gaps in the year 2017 and 2019 (when discoms were under GRIDCO's management) stood at INR 0.32/kWh and INR 0.34/kWh, respectively. Consequently, the deductions of the authors undermine the performance of the distribution sector under the management of GRIDCO while exaggerating the success of privatisation.

3.2. The Performance of Public Sector

Authors have highlighted the success and ignored the failure of private sector distribution companies. They have also ignored cases of remarkable performance registered by state-run Discoms. Some public sector discoms have performed remarkably during the last couple of years on both technical and financial parameters and brought down their transmission and distribution losses from an average of 18% to 10%, which is an improvement of 44% in the last 10 years, as shown in the chart below. This performance of public discoms is at par with the private discoms, despite most of them serving both rural and urban territories, unlike private discoms that serve only urban areas.

Figure 1: T&D Losses of Selected Public DISCOMS



Source: (GERC, 2023a, p.62, 2023b, p. 62, 2023c, p. 64, 2023d, p. 61) (EWED, Chandigarh, 2023, p. 54) (HERC, 2023)

On the aspects of financial performance, there are public sector discoms with an envious track record of financial performance of the following state utilities –

1. Madhya Gujarat Vij Company Limited (MGVCL) and Dakshin Gujarat Vij Company Limited (DGVCL), two of the four public Discoms in Gujarat, had a revenue surplus for 2021-22 of INR 97.44 Cr and INR 117.62 Cr, respectively (GERC, 2023b, p. 108, 2023a, p. 108).

2. Both Discoms in Haryana had a combined revenue surplus for 2021-22 of INR 1,432 Cr (HERC, 2023, p. 122). These examples highlight the possibility of operational and financial performance under the leadership of a public Discom that is at par with national and global benchmarks for the sector.

Further, authors have highlighted, "Often, companies don't report the data and regulators don't ask for it. The lack of proper auditing and assessment is underlined by Mr. Kanoria of IPCL. He stated that despite a contractual obligation, regulators did not seek an independent performance assessment from them and the public sector distribution company, thereby making it impossible for his firm to be able to benchmark their performance and mark it against their initial agreement" (Rossow & Singh, 2024, p. 32). Thus, any claims of better performance of private companies are unsubstantiated mostly.

The authors have assumed that private sector utilities necessarily perform better without appreciating the conditions under which they have failed or succeeded. The selectively ignored instances of underperformance of private Discoms in both the licensee and franchisee models suggest that the challenges of the electricity distribution sector are perhaps beyond the binaries of public or private ownership. However, selective use of data has allowed them to conveniently argue not only for the privatisation of Discoms but also for the privatisation of specific profitable territories while leaving the risky/non-remunerative territories to be served by the Public Discoms. This selection bias is rooted in the ideological framing of the research question which focused on the political implications of privatisation without delving into the merits and demerits of privatisation itself. Moreover, the report argues for the privatisation of areas with higher industrial consumers and urban territories, while leaving the less profitable and risky territories for the public sector. This is simply the privatisation of profits and socialisation of risks in the distribution sector.

4. C&I Tariffs and Impact of Cross-Subsidies

The authors highlight the high tariffs paid by C&I (Commercial and Industrial) consumers in India and criticised the practice of providing cross-subsidised, free, or low-cost electricity to agricultural consumers, labelling it as a half-measure[4]. They argue that this approach has not only negatively impacted the financial health of Discoms but has also led to increased tariffs for C&I consumers.

However, the authors seem to have overestimated the impact of cross-subsidies on Discoms' health. In FY21, 10 states in India accounted for nearly two-thirds of the gross energy sold (PFC, 2022, p. xx, Fig. 3)[5]. Annual revenue of Discoms of five states had significantly lower contributions from cross-subsidies than from direct government subsidies. Discoms of four states received similar contributions from both cross-subsidies and government subsidies, each contributing around 10-15% to the revenue. Discom of only one state had higher reliance on cross-subsidies towards its annual revenue (Prayas (Energy Group) et al., 2023, p. 59, Fig. 14). Hence, it may be argued that dependence of Discoms on cross-subsidies is limited and its impact on the health of Discoms is exaggerated.

Additionally, industrial consumers comprise the bulk of C&I energy consumption in the country[6]. In FY21, the national average cost of supply (ACoS) for the sale of energy on energy sold basis stood at INR 7.61 per unit (PFC, 2022, p. 31), while the average revenue per unit from industrial consumers was INR 7.74 (PFC, 2022, p. 93). Thus, it is evident that the tariffs for industrial consumers are closely aligned with the ACoS, contradicting the contention of the authors that C&I consumers are burdened with unjustifiably high tariffs.

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4 The authors argue that despite the cross-subsidisation policy in place, the Discoms face losses. According to them, these losses have a cascading effect ultimately resulting in reduced capital investments and modernisation of the generation capacity (Rossow & Singh, 2024, p. 4).

5 These states are Bihar, Delhi, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, and Uttar Pradesh. These states are socio-economically and geographically diverse and account for two thirds of the national electricity demand in India (Prayas (Energy Group) et al., 2023, p. 14).

6 As per PFC (2022, p. 81), in FY21 industrial consumers accounted for 25.78% of the total energy sold and commercial consumers for 7.59%.

The authors highlight the high tariffs paid by C&I consumers in India (INR 8/kWh and INR 10/kWh) in comparison with the USA (INR 7/kWh and INR 5/kWh) in various sections of the report. However, it may be noted that the tariffs paid by C&I consumers in developing countries like Brazil are significantly higher (at INR 13/kWh and INR 12/kWh) and the tariffs for general C&I consumers in China at INR 8/kWh are comparable to Indian tariffs. Developed countries like the UK (at INR 15/kWh) and Germany (at INR 15-21/kWh) have significantly higher tariffs when compared to Indian C&I consumers (Gokarn et al., 2022, p. 13). The tariff for industrial consumers in India is only slightly higher when compared to the global average of INR 7/kWh.

The above evidence and analysis clearly suggest that the positions advanced in the report are possibly devoid of merit.

5. Issues with Analysis of Privatisation and its Impact (or Lack Thereof) on Voting Behaviour

In Chapter 5 of the report, the authors attempt to answer the question of whether privatisation leads to political parties being voted out. They compare the percentage of candidates voted out of power in Vidhan Sabha (State) elections in the constituency where privatisation was implemented with the percentage of candidates voted out in their state in the same election. Based on the comparisons, they observe that: i) privatisation does not have a noticeable impact on a candidate's probability of re-election and ii) there is a modest positive correlation between privatisation and electoral success. **This analysis presents a "quasi" persuasive case for the privatisation of Discoms that have efficiency as well as political gains for the incumbents in their constituencies.** However, the above analysis has methodological concerns, and several issues must be considered before making any conclusion.

As the authors have admitted (Rossow & Singh, 2024, p. 23), election results are a complex function of cultural, economic, political, and social factors, personal beliefs, perception of candidates in the constituency, width and depth of constituency service, party leadership, and others (Ejik, 2002; HANSFORD & GOMEZ, 2010; Lublin, 2017). Hence, making even a weak claim of re-election without controlling the aforementioned variables is empirically biased and an overstatement. Despite recognising it, the Authors

have not shied away from making claims on the impact of privatisation on electoral outcomes through a questionable analysis.

The Authors compare the rate of incumbent candidates losing re-election of the legislative assembly in the constituencies where privatisation was implemented with the rate of incumbent candidates losing re-election in the entire state in the subsequent general election. However, it is evident from the dataset that privatisation reforms were mainly implemented in the urban constituencies. In the analysis, the authors have compared the results of these urban constituencies with all constituencies in the state, which is empirically flawed. As India's urban constituencies are less competitive and participatory than non-urban constituencies (Auerbach, 2015), **comparing re-election chances in urban constituencies with all (urban plus rural) constituencies is methodologically incorrect.**

The literature on electoral politics has established that the rise in the price of essential goods and services encourages voters to punish the incumbents (C. D. Anderson, 2006; C. J. Anderson, 2000). However, private utility companies usually increase the electricity price[7] in 2-5 years after taking over from the public distribution company. The same has been said by Mr Banga of Tata Power, who has been interviewed by the Authors. So, the voters may not have any incentive to punish the incumbent in the immediate election after the privatisation of Discoms if the prices remain the same. Hence, the effect of privatisation may be seen in the subsequent election rather than the immediate one. For example, the electricity price was not an issue in the NCT of Delhi during the 2003 and 2008 elections, despite the privatisation of Discoms. However, it became one of the key issues for lower middle-class and poor voters in the subsequent elections of 2013 (IANS, 2013). Hence, analysing data for the immediate general election after privatisation is not a correct analysis point; rather, an election after a price increase would have been a better analysis point.

7 Although there are claims of improvement in quality, but these claims are often beyond the rational capacity of ordinary voters due to information and capability gaps (León & Orriols, 2019). Voters primarily reward or punish on the basis of price.

6. Concluding Remarks

Without a doubt, the performance of state-run Discoms in India leaves much room for improvement. However, the report's sole focus on ownership type, while disregarding the broader sectoral challenges and downplaying the performance of publicly owned Discoms in the states/UTs of Odisha, Gujarat, Haryana, Kerala, and Chandigarh, presents a biased view that favours privatisation in India's electricity distribution sector without adequate evidence.

The authors further acknowledge and advocate for the need for public investments in energy infrastructure to improve access to quality electricity and advocate for government investments in 'non-remunerative areas' alongside privatisation (Rossow & Singh, 2024, p. 31). It is worth noting that the public Discoms have been operating in the 'non-remunerative areas' to ensure universal access to an essential commodity for the people, and the recommendation shall result in the privatisation of gains and socialisation of risks.

In Chapter 1 of the report, electricity is identified as a crucial driver of social and economic development. However, the authors undermine this by dismissing the critical need for cross-subsidies to ensure affordable access to energy for underserved and economically disadvantaged sections of India. While there may be differing opinions on the mechanisms for delivering such subsidies, the analytical approach used to argue for more competitive tariffs for industrial and commercial consumers relies on selective data and completely ignores the challenge of ensuring equity in tariff design. Similarly, the attempt to find a positive correlation between electoral success and privatisation based on a selective choice of data and erroneous interpretations in Chapter 5 is quite problematic.

While private sector participation in India's electricity distribution sector may have many merits, its proposition as a promising solution for the sector's issues is ridden with fallacies. The report conveniently undermines the strong performance of many public distribution companies and exaggerates the performance of private distribution companies. **It fails to acknowledge that the success of private distribution companies manifests only when many risks are ring-fenced by carving out favourable geographical areas, particularly well-governed urban regions.** Furthermore, even when operating

in favourable conditions, there are instances of privatisation and franchisee model failures, debunking the myth of privatisation as a singular solution to the distribution sector woes.

In our opinion, the distribution sector bears a disproportionate risk across the power sector value chain. Issues such as the cost-plus approach for power procurement, regulatory challenges in tariff setting, AT&C target determination, delays in subsidy payments, and the creation of regulatory assets are largely beyond the control of Discoms. Simply changing ownership without addressing these challenges will hinder the success of privatisation, potentially burdening state finances and impacting the energy security of both the state and the nation. Additionally, this approach risks privatising gains while socialising risks, further straining state finances and depriving socially and economically disadvantaged groups of access to affordable electricity.

We believe that the challenges within the electricity distribution sector transcend the simplistic binaries of public versus private ownership. It is imperative to address these sectoral challenges to evaluate the effectiveness of both public and private ownership. We hope that this review will serve as a catalyst for fostering further discussion on the subject in the spirit of dialogue.

Glossary

Average Cost of Supply (ACoS): Average Cost of Supply refers to the average cost incurred by a utility or a Discom to supply electricity to its consumers.

ACS-ARR Gap: The ACS-ARR Gap is used as a measure of a Discom's profitability and is calculated as the difference between the Average Cost of Supply (in INR/kWh) and the Average Realisable Revenue (in INR/kWh).

Aggregate Technical and Commercial Losses (AT&C Losses): AT&C losses are a measure of total losses suffered by a Discom. These comprise two components – technical losses and commercial losses. Technical losses refer to the inevitable loss of electricity flowing in the network. Commercial losses refer to electricity losses on account of theft, improper metering and billing, and poor collection of bills.

Cross-Subsidies: It is a part of a tariff redistribution policy under which a category of consumers is charged a higher tariff than the cost of supply incurred by the Discom in order to compensate for the lower tariffs charged to another category of consumers.

Franchisees: A franchisee is an entity which has been empowered to undertake all operations of a Discom in a specified area except for power procurement and planning.

T&D Losses: T&D Losses are a measure of Discom performance and are calculated as the difference between the energy input in the grid and the energy billed.

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