

# Business Standard

## Budget 2025: More push for private funding in power infrastructure

*Centre lures states with higher borrowing limit, brings back focus on privatisation of distribution companies*

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In yet another push for states to improve their power infrastructure and open it for private investment, the Centre has floated a scheme to incentivise reforms for the same. This comes at a time when two of the highest loss-making power distribution companies (discoms) of Uttar Pradesh are gearing up for privatisation, the biggest since Odisha's discom was privatised in 2020.

On Saturday, Union Finance Minister Nirmala Sitharaman announced that reforms in state-level power transmission and distribution infrastructure would be incentivised. "Additional borrowing of 0.5 per cent of GSDP (gross state domestic product) will be allowed to states, contingent on these reforms," she said.

Budget documents revealed a new "Reforms Linked Distribution Scheme", which was allocated Rs 16,021 crore and is strictly aimed at inviting private investment in the power transmission and distribution segment.

"The scheme is for the distribution sub-sector as a mix of results- and reforms-based financial support with an objective of ensuring 24x7 sustainable power for all and a financially viable distribution sector. The scheme envisages support to discoms in case of adoption of reform packages, including

PPP ownership of distribution companies, adoption of various franchisee models at distribution level, including multiple supply franchises,” the expenditure Budget document said.

Reacting to the announcement, M L Khattar, Union Minister for Power, said: “The government’s dedication to improving the financial and operational stability of electricity distribution companies, coupled with incentives for enhancing intra-state transmission capacity, will greatly boost the efficiency of the power sector.”

Through schemes such as UDAY (Ujwal Discom Assurance Yojana) during 2015-2019 and RDSS (Revamped Distribution Sector Scheme) currently, the Centre tried to push reforms in discoms, but the losses have continued to rise after a brief respite. Under the UDAY scheme also, states that took up reform measures for discoms were allowed additional borrowing. But no state took the privatisation route and a select few opted for tech partnership or franchisee with private players.

The latest attempt is effectively the third such push to the discoms towards privatisation or allied tools such as PPP or franchisee to turn around their beleaguered operational and financial status. In November last year, Khattar had urged states to publicly list their profit-making power sector entities, while underlining worrying statistics. “The current cumulative debt of discoms is Rs 6.84 trillion, and the accumulated losses stand at Rs 6.46 trillion as of now,” the minister said.

During 2022-23, the total debt of discoms rose to Rs 70,000 crore, according to the annual discoms audit report of Power Finance Corporation (PFC) last year, with 16 states seeing their financial losses increase significantly, of which 11 are large states. The Aggregate Technical and Commercial (AT&C) losses, which indicate operational losses, increased to 17 per cent during 2023-24 (FY24), compared to 15 per cent in FY23.

The draft amendments to Electricity Act, 2003 in 2016 had suggested “content-carriage” separation where there will be multiple electricity suppliers in an area while infrastructure ownership remains with the state. The Bill is yet to be tabled in Parliament. Thereafter in 2023, the Electricity Rules allowed anyone to bid for a second electricity supplier in any area by applying to the electricity regulator (Central Electricity Regulatory Commission). To date, only one such attempt has been made for an area in Mumbai by Adani Electricity Mumbai Ltd. Last week, Chandigarh’s power distribution was handed over to the R P Sanjiv Goenka group.

# POWER PLAY

Profit or loss of key states in ₹ crore

	2020-21	2021-22	2022-23
Andhra Pradesh	44	-2,458	1,736
Karnataka	-4,175	-4,592	-3,146
Madhya Pradesh	-4,152	-3,315	-2,683
Maharashtra	-1,607	-329	-6,289
Punjab	1446	1,069	-4,776
Tamil Nadu	-13,066	-9,130	-9,192
Telangana	-6,686	-831	-11,103
Uttar Pradesh	-10,660	-6,498	-15,512

Source: Annual rating and ranking of power distribution companies by PFC

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