

INDIAN POWER SECTOR

Strengthening discom viability: Tariff hike and efficiency improvement remain key

March 2026



1 Highlights



2 Key changes proposed in draft Electricity (Amendment) Bill, 2025



3 Cross-subsidy framework



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Highlights



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The draft electricity amendment bill proposes cost-reflective tariffs and eliminates cross subsidies for select categories within five years

Complete cross-subsidy removal may require key states raising domestic and agriculture tariffs alongside a material increase in state subsidy outgo

Significant reduction in AT&C losses across most state discoms could support elimination of cross-subsidy across all consumer categories



- The draft Electricity (Amendment) Bill, 2025 proposes reforms for distribution companies aimed at restoring financial viability, enhancing competition, and supporting clean energy transition. Key measures include mandatory and timely cost reflective tariff determination, suo-motu tariff setting by regulators, and flexibility for states to provide advance subsidies to targeted consumer categories. The draft envisages complete elimination of cross subsidies for select consumer categories within five years, introduction of multiple distribution licensees operating in the same area through shared networks, rationalisation of universal service obligations for large consumers, uniform service quality benchmarks, strengthened regulatory accountability, and stricter compliance mechanisms to accelerate non fossil energy adoption.



- As per ICRA's assessment for key states namely, Bihar, Himachal Pradesh, Jharkhand, Karnataka, Madhya Pradesh, Punjab, Rajasthan, Telangana, Uttar Pradesh, Andhra Pradesh and Tamil Nadu, a complete elimination of cross subsidy across four major consumer categories — domestic, agricultural, industrial, and commercial — could necessitate significant tariff change along with higher subsidy outgo. As per ICRA's analysis, cross subsidy elimination can be met through a combination of tariff adjustments across various categories and increase in state subsidies.



- ICRA's assessment also examines the extent of improvement required in aggregate technical and commercial (AT&C) losses to enable a complete phase out of the cross subsidies across categories for key states and progressive reduction. The analysis indicates that, based on AT&C loss levels reported in FY2025, several states would need to reduce the losses drastically. However, in states with relatively high levels of cross subsidisation, improvements in AT&C losses alone may not be sufficient to fully eliminate the cross subsidy, highlighting the need for tariff and subsidy reforms.



- Improving the financial viability of state discoms will require a multi pronged reform approach. Key measures include timely implementation of the cost reflective tariffs, sustained reduction in AT&C losses through network strengthening and better billing and collection efficiency, and rationalisation of cross subsidy. Greater predictability and transparency in state subsidy payments, along with improved regulatory discipline and timely tariff orders, is equally critical.



ICRA Analytical Contact Details

Name	Designation	Email	Contact Number
Girishkumar Kadam	Senior Vice-President & Group Head	girishkumar@icraindia.com	022 – 6114 3441
Ankit Jain	Vice-President & Co-Group Head	ankit.jain@icraindia.com	0124 – 4545 865
Asmita Pant	Assistant Vice-President & Sector Head	asmita.pant@icraindia.com	0124 – 4545 856
Vaibhav Arora	Senior Analyst	Vaibhav.arora@icraindia.com	0124 – 4545 386





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Sai Krishna	Head - Research Sales and Investor Connect	sai.krishna1@icraindia.com	9840774883
Rohit Gupta	Head Business Development – Infrastructure Sector	rohigt@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860





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