MONTHLY SECTOR UPDATE

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Power Sector

"Energy consumption matter both to our environment and our economy."

John Baldacci

India is the third largest producer and third largest consumer of electricity in the world with installed power capacity reaching 370.49 GW

Union Budget 2020-21 allocated Rs 15,875 crore (US$ 2.27 billion) to Ministry of Power and Rs 5,500 crore (US$ 786.95 million) towards the Deen Dayal Upadhyay Gram Jyoti Yojana

India achieved 100 per cent household electrification by March 31, 2019, as envisaged under the Saubhagya scheme

Government plans to establish renewable energy capacity of 500 GW by 2030

Impact of COVID-19

The power generation and supply for a particular day are planned based on the forecast for demand; thus, there is no large-scale storage of power. India witnessed a strong impact of the national lockdown on India's electricity consumption. It dropped on an average of 28.5 per cent in the week after its implementation and was an average 25.8 per cent below normal for several following weeks. It started recovering in early May and was nearly back to normal between May 23 and May 28, before dropping again at the end of the month to -14.7 per cent on May 31. In the first 15 days of June, a fall of 14.3 per cent was recorded, while in the second half of June, electricity generation declined by 5.3%. This recovery in power demand in the second half of June was primarily led by higher consumption by industrial regions such as Western states of Maharashtra and Gujarat, and Delhi in the North.

When it comes to the consumption pattern by consumers of different categories, in 2018-19, 41% of total electricity consumption was for industrial purposes, while 25% and 18% was for domestic and agricultural purposes, respectivley. As the lockdown rigorously reduced the industrial and commercial activities in the country, these segments witnessed a considerable decline in demand for electricity.

Electricity consumption and economic activity are closely related since most economic activity needs electricity. According to the World Bank, in 2019, every per cent additional economic activity in India led to a 0.95 per cent increase in electricity consumption. Year-on-year quarterly growth in the first quarter of 2020 was 3.4 per cent lower than it would have otherwise been. For the second quarter of 2020, it suggests that the negative growth effect until the end of May has already been 17.0 per cent. For the full calendar year, this amounts to economic costs of 5.1 per cent of GVA so far, or around US$ 150 billion. The actual growth in the second quarter of 2020 will, of course, depend on whether the economy will continue to be held back by the COVID-19 pandemic, whether it will revert to previous levels, or whether it will overshoot to compensate for forgone activity during the lockdown. The strength of the rebound can also be well tracked by our measure based on daily electricity consumption.

The economic impact of the lockdown was not equal across states, districts, and cities. Some of the heterogeneity in decline in electricity consumption is related to the economic structure of the States and previous migration patterns. A more significant number of COVID-19 infections resulted in a more considerable decline in night-time light intensity in districts, but not in the State.

A key concern troubling the Indian power sector has been the poor financial health of its Discoms, which are managing high levels of debt. They have been running considerable losses owing to underpricing of electricity tariff for some consumer segments. Other forms of technical and commercial losses as the loss of revenues due to decline in demand from commercial and industrial customers and the inability to cover the cross-subsidies provided to the lower-tariff paying consumer puts additional pressure on the Discoms. Outstanding dues of Discoms towards power generation companies have been increasing, indicating further financial stress in some Discoms. This could lead to reduced availability of working capital for these entities, and an increase in the risk of NPAs in the sector had the Central government not intervened at the right juncture. Amendments to the Electricity Act 2003 aim to bring in bold reforms that are needed to change the status quo. This would entail clarifying that if subsidies are to be given directly to end-consumers, they should pay 'full cost' for electricity, ensuring that social welfare objectives are more direct and explicit.

Currently, the distribution companies (DISCOMs) and generating companies (GENCOs) are riding on pan-India revenue losses INR30,000 crore and INR25,000 crore, respectively.

Nilaya Varma

Co-Founder & CEO

Primus Partners

Source:
1. Robert C. M. Beyer Sebastian Franco-Bedoya, Virgilio Galdo, 'Examining the Economic Impact of COVID-19 in India through Daily Electricity Consumption and Nighttime Light Intensity', World Bank Group, June 2020

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News & Announcements

Key Sector Developments

Tariff Policy Reforms:

- Consumer Rights,
- DISCOM inefficiencies not to burden consumers,
- Standards of Service and associated penalties for DISCOMs,
- DISCOMs to ensure adequate power; load-shedding to be penalized,
- To promote Industry,
- Progressive reduction in cross subsidies,
- Time bound grant of open access,
- Generation and transmission project developers to be selected competitively,
- Sustainability of Sector,
- No Regulatory Assets,
- Timely payment of Gencos,
- DBT for subsidy; Smart prepaid meters.

Privatization of Distribution in UTs

Power Departments / Utilities in Union Territories will be privatized. This will lead to better service to consumers and improvement in operational and financial efficiency in Distribution. This will also provide a model for emulation by other Utilities across the country.

Electricity (Amendment) Bill 2020

A few provisions of the Electricity Act, 2003 Act were observed to be insufficient considering the rapid development of the sector and the following key points have been suggested as an Amendment to the Act of 2003:

- The Bill proposes privatization of Discoms by way of sub-licensing and franchisee.
- It proposes state commissions to determine tariff for retail sale of electricity without any subsidy under section 65 of the Act.
- It proposes to empower National Load Despatch Centre to oversee/monitor the grid operations, payment, and security mechanism before scheduling dispatch of electricity. Every Regional Load Despatch Centre, State Load Despatch Centre, licensee, generating company, generating station, sub-station etc. shall adhere to its mandates.
- It proposes National Renewable Energy Policy for the promotion of generation of electricity from renewable sources and to prescribe a minimum percentage of purchase of electricity from renewable and hydro sources of energy. To harmonize the national level commitments for environment protection, it also proposes to empower the State Commissions to specify the Renewable Purchase Obligation as per RPO trajectory prescribed by the Central government from time to time.
- It proposes to establish an Electricity Contract Enforcement Authority, which shall have the sole authority and jurisdiction to adjudicate upon matters regarding performance of obligations under a contract related to sale, purchase, or transmission of electricity.

Pan-India Real Time Market launch

Minister of State for Power and New & Renewable Energy launched pan-India Real Time Market in electricity in June 2020.

Real Time Market will enable buyers and sellers pan-India to meet their energy requirement closer to real time of operation and bring flexibility in the market with optimum utilization of the available surplus capacity in the system.

RTM will be for every 30 minutes a day. Buyers and sellers shall have the option of placing bids for each 15-minute block. It will enable Discoms to access a larger market at competitive price and simultaneously provide for generators to share the net gains with Discoms.

Indo-China Energy Trade

The Renewable Energy Ministry and the Power Ministry have proposed imposing customs duties on some solar power equipment and other apparatus starting August 1 as part of the country's goal of becoming self-sufficient and promoting Make-in-India.

India has in the recent days taken steps to impose stringent quality control measures and higher tariffs on goods from China as it looks to boost domestic manufacturing to cut reliance on imports.

Tightening import norms, India will check all power equipment bought from China for malware and Trojan horses that can be potentially used to trigger electricity grid failures to cripple economic activity in the country.

Key Players Updates

- On June 22, 2020, the Supreme Court of India rejected a request by power producers to extend a deadline to install equipment to cut emissions by two years to 2024. The Power plant operators have blamed costs and technical difficulties for missing an earlier deadline at the end of 2017 and then again at the end of 2019.

- Power Finance Corporation (PFC) has ended financial year 2019-20 (April-March) on a strong note despite numerous challenges including outbreak of COVID 19.The lending institution delivered a sound financial performance with loan sanctions of more than Rs 1 lakh crore along with Loan Disbursements of about Rs 68,000 Crore in the last financial year.

- Power producers' total outstanding dues owed by distribution firms rose nearly 63 per cent to Rs 1.23 lakh crore in April 2020 over the same month previous year, reflecting stress in the sector.

- Distribution companies owed a total of Rs 75,642 crore to power generation firms in April 2019, according to portal PRAAPTI (Payment Ratification and Analysis in Power procurement for bringing Transparency in Invoicing of generators).

- Republic of Mali has awarded Project Management Consultancy contract to NTPC, a central PSU under Ministry of Power, for development of 500 MW Solar Park. In an event held on 24th June 2020, chaired by the Hon'ble Minister and Mr. H.E. Sekou Kasse, the Ambassador of Mali, handed over the Project Management Consultancy award letter to Mr. Gurdeep Singh, CMD NTPC, for development of 500 MW Solar park in the Republic of Mali.

- In FY20, NTPC has recorded the highest ever commercial capacity addition of 8260 MW which includes acquisition of 2970 MW capacity of THDC and NEEPCO. The gross generation of NTPC Group for FY20 was 290.19 Billion units as against 305.90 Billion units during the previous year.

- Power Finance Corp (PFC) and REC Ltd have decided to offer 10-year loans to state distribution utilities at 9.5% for the next 60 days under the Rs 90,000 crore liquidity infusion package while the government is considering relaxing working capital borrowing limits of power distribution companies.

- NTPC has offered learning opportunities to its 19,000-plus employees and their family members. To meet the requirements of the lockdown imposed due to COVID 19 pandemic, NTPC Learning and Development (L&D) strategy has been customized for enriching employees through intensive digitization and online training, enabling them to avail these services from anywhere.

- Bharat Heavy Electricals Limited (BHELNSE 4.67 %) has successfully commissioned one 270 MW thermal unit at the 4x270 MW Bhadradri Thermal Power Project in Telangana. Located at Manuguru in Bhadradri Kothagudem District of Telangana, the project was awarded to BHEL by Telangana State Power Generation Corporation Limited (TSGENCO).

- According to ICRA, the prices on the power exchange market, both RTM and DAM, are expected to remain subdued at less than Rs 3 per unit in the near term, given the surplus capacity scenario and subdued demand growth expectations for the current year, with the adverse impact of the ongoing lockdown and restrictions imposed to control COVID-19 pandemic.

- The Concession Agreement for the 600 MW Kholongchhu (Joint Venture) Hydroelectric Project between the Royal Government of Bhutan and Kholongchhu Hydro Energy Limited was signed on 29 June 2020 in Thimphu, in virtual presence of Dr. S. Jaishankar, External Affairs Minister, Government of India and Lyonpo Dr. Tandi Dorji, Foreign Minister, Royal Government of Bhutan.

Looking Forward

The 2019-20 electricity generation target of conventional sources was determined as 1330 Billion Unit (BU), a growth of ~6.46% over actual conventional generation of 1249.337 BU for the previous year. Even before the pandemic crisis Discoms in India have been facing tremendous challenges including, politicization of and poor tariff setting, failures to have regular consumer tariff revisions (simply to even match inflation, forget rising costs, especially of procurement of power), continued AT&C losses, failure to get paid by the government (as a consumer or for promised subsidies) etc. Discoms face disproportional risks compared to generators and especially transmission companies, who get paid first (and make hefty returns).

Government schemes, policies and investments should now align with long term targets of sustainability, cleaner power, and quality supply. Post-COVID-19, states will also need to relax their deficit spending caps under the Fiscal Responsibility and Budget Management (FRBM) Act.

More detailed information about the INR90,000 crore package is awaited, along with information on cash flows, obligations, deferments, etc. across the chain to fully acknowledge the objectives of the measure and expect definite outcomes. Moreover, just like amendments in the Electricity Act of 2003 that introduced the concept of open access in India, there is a need for a National Policy encouraging rooftop installations and establishing the right of consumers to use rooftops for self-consumed solar power. These measures will ensure stable and uniform policies in the sector, which will drive private sector investments in the renewable energy sector.

Supporting private players in the power sector will offer multiple financing solutions, including working capital facilities to support temporary liquidity needs, refinancing existing debt to enhance resiliency, and long-term financing to support project development and construction in an environment where financing is not as easily available.

Sources:
1. *Power Ministry*
2. *CEA*

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About Primus Partners

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'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

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The founding team is supported by a distinguished advisory board that includes experts with leadership experience across government, large corporate and notable civil society organizations.

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