

Some Pain, Some Gains

Views of sector experts

The power sector is growing steadily with rapid renewable energy addition and increasing electricity demand backed by the government's Saubhagya scheme. However, the distribution segment continues to weigh down the sector with large outstanding dues to gencos, operational inefficiency and financial imprudence. Industry experts comment on the sector's achievements, challenges and the way forward.

What is your assessment of the power sector's progress during the past year?

Pankaj Batra

The power sector continued to progress quite rapidly, on the back of new initiatives of the government. For example, the Saubhagya scheme for last-mile connectivity has been successfully implemented, although there are some apprehensions expressed by the critics. I think this is a remarkable feat. I am aware that there could be some hiccups at the ground level. But that happens to any scheme that is implemented on such a large scale. Then there are some issues that need to be tackled at the root. The poor financial health of the state distribution companies is the bane of the power sector. If discoms are making losses, it reflects on the entire power sector, in terms of payments to generators that supply power to discoms, transmission companies that transmit the power, the financing institutions that finance their projects. In light of this, the decision that the distribution companies have to open a letter of credit (LC) as a payment security mechanism if they want power to be supplied to them

by the generators and transmission companies is very courageous. This is already a part of their power purchase agreements (PPAs) and is also mentioned in the Central Electricity Regulatory Commission's (CERC) regulations for interstate generating companies. The payment of direct subsidy instead of cross-subsidy is another bold but correct step. I feel that just like direct gas subsidy is given from the government coffers, rather than cross-subsidy, direct subsidy should be given for electricity. If a family is under-privileged, it needs to be supported in all respects. In fact, there could be a comprehensive subsidy for all utilities, rather than separate subsidies, and the consumer should pay the full tariff. That way competition, which is the hallmark of the Electricity Act, 2003, will not be undermined. Also, if the tariff for industrial customers reduces because of this, the industry will become more competitive internationally, giving a boost to the Make in India initiative.

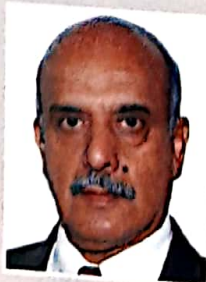
The move towards electric vehicles (EVs) is also a remarkable step, not only for the utilisation of the stranded generating

capacity, but also for reducing our import bill of petroleum products. We kill two birds with one stone. Things are slowly taking off, with a number of PSUs tasked with creating charging infrastructure, which would encourage people to own EVs. Its effects would be seen in the coming years. However, the government has to face a trilemma – whether to reduce emissions, use the stranded generating capacity, or support the business of fossil fuel-based vehicles. The government has taken steps in the past year to promote trading in South Asia, including electricity trading, to derive mutual benefits. Bhutan and Nepal have predominantly hydro resources, whereas India and Bangladesh have predominantly thermal generation resources. This makes for an ideal generation mix in South Asia. Owing to their complementary peak demand, both over a day and over seasons, all countries in South Asia stand to gain from power trading. There are occasions when water in hydropower plants in Nepal is spilling over, when it could be exported to India or Bangladesh. That is free energy getting wasted. In India also the states sometimes curtail renewable



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energy generation as it fulfils the requirement. This could be reported to other South Asian countries. Therefore, the policy of the Indian government of allowing cross-border power trading through the power exchanges is a first step. Countries can buy and sell power as little as 15-minute blocks. The growth in the renewables segment, in spite of the best efforts of the government, has slowed down. One of the reasons is the uncertainty pertaining to the evacuation system and power offtake by the states. If these are facilitated by the government, private investors would be more forthcoming.

Pramod Deo

Nothing seems to be moving ahead in the power sector, especially in the distribution segment. The sector's biggest achievement is the Saubhagya scheme, under which all the willing households have been given electricity connections. While universal electrification has been achieved in India and nearly 30 million customers have been added in the past 18 months, a large number of households still don't receive 24x7 power supply. That latent demand is not part of any "surplus" calculus. That is why when measuring power sector growth and planning to scale up for the future, the yardstick of "adequate availability of electricity" will be inaccurate. A truer, holistic gauge would be 24x7 reliable power supply to all at an affordable price. As the health of discoms has become worse, the central government is now planning to launch UDAY II, which will be a performance-based scheme. This is something that should have been done in the beginning. Most importantly, when we talk about the performance of utilities, we rely on the data provided by discoms, which is often manipulated. There is no third-party verification of the data. For instance, in Maharashtra, where agricultural feeders have been separated, meter reading is still undertaken by conventional means such as photo meter reading, which leaves scope for tampering. While the government is talking about smart metering, it will take a long time to be implemented. Till then, the Central Electricity Authority (CEA), which has a statutory

mandate, needs to undertake statistical sampling based verification to improve the accountability of discoms. As the financial position of discoms worsens, owing, they cannot buy electricity to meet the objective of 24x7 power supply. We can keep having UDAY II, but nothing will change unless the state governments can be brought on board to improve the distribution segment.

Recently, the Appellate Tribunal for Electricity has passed an order asking state regulators to report about delays in tariff revisions which affect viability of the distribution segment. The order is on similar lines to the one passed in 2011, wherein APTEL had directed the state electricity regulatory commissions (SERCs) to initiate suo-motu proceedings for tariff determination. Now, SERCs have been asked to provide relevant information by October 2019 to the Forum of Regulators (FOR). Again, the ball is in the states' court. The state governments have two options either continue levying high tariffs on the industry for cross subsidising agriculture and small consumers or bridge the gap between rational tariff-based revenue of discoms and adequate subsidy to meet its social objectives. If the former option is chosen, we cannot expect the government's Make in India programme to succeed.

Rajesh K. Mediratta

The power sector has seen a major shift in the energy mix during the past year, with greater renewable energy capacity addition as compared to conventional capacity. The 175 GW by 2022 target has given a major impetus to renewable capacity addition. Of the total 13 GW capacity added during the past year, almost 9 GW came from renewables and 4 GW from coal-based power. This included 6.5 GW of solar and 1.9 GW of wind capacity. This confirms that solar is the most preferred source. Conventional generation has grown only 3.6 per cent while renewable energy has grown 24 per cent, constituting 9 per cent of the generation mix, up 1.2 per cent from the previous year. An overall increase of 5 per cent was witnessed in energy generation. With 356

GW of installed generation capacity, we are the third largest country in terms of both electricity production and consumption. India touched a peak demand of 177 GW in September 2018, an 8 per cent increase from the previous year. The government's target for All India mission created by the states with lower electricity access. For example, Bihar, Madhya Pradesh and Odisha reported a 16 per cent, 12 per cent and 16 per cent increase in demand respectively.

On the supply side, coal supplies were constrained. The major reason was the frequent shutdown of Adani's Mundra power plant and Essar's power plant owing to a compensatory tariff dispute with their beneficiaries. As a result, the beneficiaries (especially Gujarat) bought power from the market. While the overall coal production increased by 6.6 per cent to 671 million tonnes (mt), it fell short since many discoms could not import coal due to restrictions. The increased demand (by over 6 per cent) could not be met with domestic coal despite growth in renewable energy generation by 24 per cent. Further, coal prices discovered in the e-auction were almost double of the notified prices. The increase in demand at the exchanges to 10,700 MW round the clock in September 2018, and a similar increase in October 2018 pushed the prices to Rs 4.69 per unit and Rs 5.93 per unit respectively, among the highest in almost a decade. Instantaneous prices touched a high of Rs 18 per unit for a few time blocks in October 2018. Overall, the average price in the past year stood at Rs 3.86 per unit, 18 per cent higher than the previous year.

An improved transmission network across the West-South corridor kept the congestion low. However, one-grid, one-price days were 214 in 2018-19, lower than the 268 days in 2017-18. On the market side, a lot of new ideas and thoughts came from the CERC and many of them were found favourable by market participants. These include the Cross Border Electricity Trade Guidelines released by the Ministry of Power (MoP) in December 2018, regulations to link the