Concerns in Power Sector

What is the issue?

\n\n

Concerns in discoms and power prices call for the government to make the right intervention to regulate the market and production pattern.

\n\n

What are the concerns to be addressed?

\n\n

\n
- **Debt** - The much publicised UDAY programme called for a reduction of debts in the discom balance sheets.
\n
- However, in many ways, this only meant a transfer of debt from discoms to the state treasury.
\n
- This has thus resulted in a superficial reduction in the cost of power at the discom level.
\n
- Despite giving the impression of a new lease of life for discoms, there is little change in their tariff structure and losses continue to pile up.
\n
- **Cost** - Discoms pay pre-agreed fixed cost to generating companies.
\n
- However, this is based on the plant availability criteria and even if they do not take off the contracted capacity, the pre agreed cost is paid.
\n
- This results in discoms far fewer units to purchase and lead to pushing up the power purchase cost per unit.
\n
- Hence, the average cost of supply for discoms is higher.
\n
- **Oversupply** - The Electricity Act 2003 opened up the power sector to a number of players for offering choices and boosting competition.
\n
- Henceforth, industrial and commercial consumers could buy cheap power

from the open market, rather than being limited to buy from the local utility monopoly.
\n
- Open Access has led to the entry of many new private players.
\n
- The resultant increased installed capacity is leading to oversupply in open market capacities.
\n
- This forces the generators to supply power at near-variable costs which are just enough to keep the plant running.
\n
- As prices fall, plants shut down, causing stranded assets and creating NPAs in the banking system.
\n

\n\n

What are the possible solutions?

\n\n

\n
- India should focus on
\n

\n\n

\n
i. maximising capacity utilisation of existing thermal assets
\n
ii. promoting renewables and hydros
\n
iii. lowering power generation costs
\n
iv. gradual retirement of inefficient plants
\n
v. addressing existing excess capacities
\n

\n\n

\n
- The issues of shortage of water and fuel for under-used plant capacities should be addressed by the government.
\n
- The Government should also work towards creating a level playing field for discoms and generators.
\n
- Equitable clauses in the model Power Purchase Agreement should be created

for securing the interests of both.
\n
- Government regulation of State-owned discoms should be reduced to let them have control over the power pricing and market play.
\n
- Prioritising the interventions, to adopt renewables and to suspend thermals at the right time, should be the government's mandate.
\n

\n\n

\n\n

Source: Business Line

\n

