Cost Optimisation in Power Sector

What is the issue?

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Expenses involved in environmental friendly thermal power plants should be optimised.

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What is the significance of new environment norms?

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- India has rightly increased its efforts to reduce emissions.
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- The per-capita consumption of electricity in the country is still much less than the world average.
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- The reform measures introduced by the Government in the form of new environment norms are on a par with the best in world.
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- There are finalisation of new norms of efficiencies, encouraging wind and solar power, focusing on e-mobility solutions.
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- The new norms expected to have a wide socio-economic impact and change the industry dynamics.
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What are the challenges with the environment norms?

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- The new norms failed to address the cost effectiveness of the implementation.
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- The price of the power produced by this new adapted technology will have an effect on affordable power.

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- Including operating and maintenance costs for the emission control would increase the cost of electricity by 40-50 paise per kWh.
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- If environment norms are to be implemented on plants with the life of units below 10 years, it is expected that the cost of mitigation may increase by additional 20 paise per unit.
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- Age profile of plants is so different, it is important to create a level playing field for generators without impacting their position in the power market.
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How the cost can be optimised?

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- There should be comprehensive implementation strategy to meet the expenses of the new norms
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- The increase in cost with respect to old power plants can be mitigated by extending Power purchase agreements of units by five or seven years provided it does not exceed 30 years of life.
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- Units beyond 25 years could be allowed five years to continue with a choice for the developer to replace these units by more efficient units.
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- Though initial costs will be high, opportunity for replacing low-efficiency plants will reduce the operational costs
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- Stranded assets could be allowed to compete according to bidding guidelines, with a ceiling limit of normative fixed cost allowed to be incurred on environment measures as additional fixed cost.
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Source: Business Line

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